

Nation's Business

The Business Advocate Magazine

U.S. Chamber of Commerce Publication

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**Keeping a Firing
From Backfiring**



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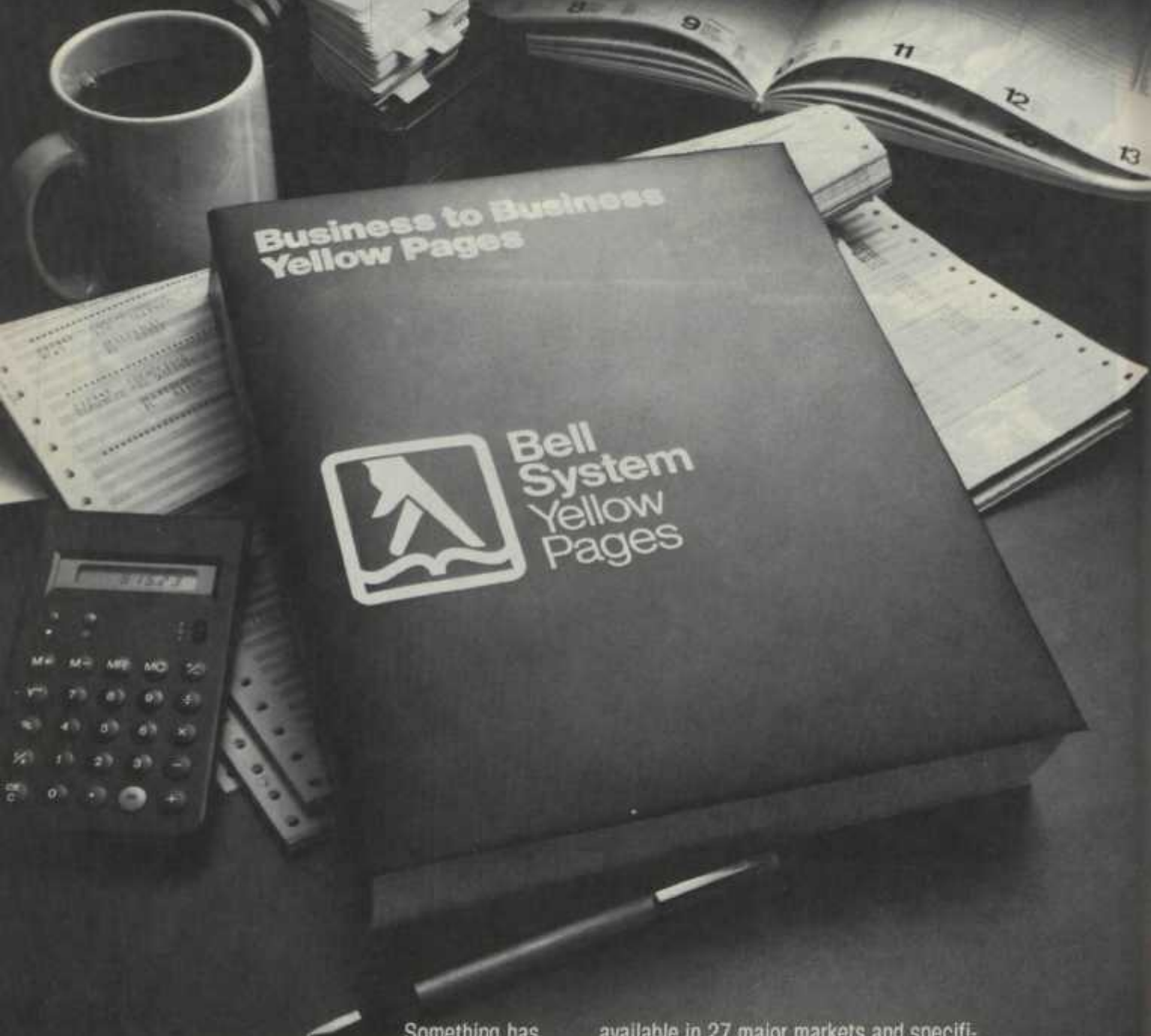
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Business to Business Yellow Pages



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Let's face it. There are a lot more productive things for a truck driver to do than work a clutch pedal and stick shift.

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do a better job for your company.

An Allison Automatic can also reduce driver training time because there's no shift lever or clutch to master. What's more, it makes sure a driver is always in the right gear and RPM range for good fuel economy.

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trucks with manual transmissions.

That could add up to good savings, especially if you operate in hilly areas or congested cities. Plus Allison Automatics work for you by optimizing performance.

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So give up the stick for good and get better driveability from your fleet with tough, dependable Allison Automatics. On hand now for immediate delivery.

For more information, see your local truck dealer or DDA distributor, or write Detroit Diesel Allison, Division of General Motors, P.O. Box 81, Birmingham, MI 48012.

The Allison Automatics



The Power To Destroy

THE STORY of urea foam formaldehyde insulation, known to the makers, the installers, the bureaucracy and the courts as UFFI, is a melancholy story, but it is also instructive. It tells us something of the abuse of power and of the consequences of such abuse, and it teaches us that for some wrongs there is no effective remedy. What has happened is that a nice little business has been virtually destroyed, and there probably is no way to put it back together again.

Formaldehyde is among the most nearly universal of all chemical compounds. It appears in every cell of the human body. It was first manufactured commercially about 1889. According to testimony before a House subcommittee last year, an estimated 1.4 million American workers in 45,000 different plants are involved in making products containing formaldehyde. The chemical is "essential" to 17 major industries and "important" to 70 others. Formaldehyde turns up in disinfectants, preservatives, toothpaste, shampoo, plywood, draperies, cigarette smoke and permanent press fabrics.

Forty-odd years ago an enterprising German invented a process for turning formaldehyde resin into foam. The foam proved to have excellent insulating properties, and it had this advantage: It could be sprayed easily into the exterior walls of old houses. There it hardens. Properly installed, UFFI is a good product. Between 1975, when the foam caught on in the United States, and 1981, when the industry collapsed, an estimated 500,000 homes were treated with UFFI.

Toward the end of 1976, the Consumer Product Safety Commission began looking into UFFI. It measured formaldehyde levels in 1,164 UFFI homes and determined that nine years after installation an average level of .08 parts per million could be expected. In 103 non-UFFI homes a level of .03 could be expected. The commission began investigating various complaints of adverse reactions after UFFI had been installed.

While this was going on, the Chemical Industry Institute for Toxicology was conducting its own studies of formaldehyde. In a key experiment, 240 rats were subjected to an average exposure of 14.3 ppm formaldehyde for six hours a day, five days a week. The average daily high was a near-lethal 32.4 ppm. Because rats breathe only through their noses, it was hardly surprising that over a two-year period 103 of the rats developed nasal carcinomas.

Other federal agencies, notably the Food and Drug Administration and the Occupational Safety and Health Administration, had seen no cause for alarm in UFFI or any other formaldehyde product. But the

commission dramatically rose to the occasion. In November, 1980, it issued a widely publicized press release warning that UFFI carried a risk of causing cancer. In April, 1982, acting under the Consumer Product Safety Act rather than the Federal Hazardous Substances Act, the commission voted 4 to 1 to ban UFFI altogether, not only in homes but also in schools.

In the wake of the fatal press release, the industry went down the tubes. The number of UFFI manufacturers dropped from 16 to 3, and the number of installers from 1,500 to about 200. Many of these enterprises were mom-and-pop affairs. Scores of them took bankruptcy.



There is no feasible way to sue the government for its bad judgment.

The Formaldehyde Institute and other plaintiffs brought suit in the federal courts. Last April 7, almost a year to the day after the ban was promulgated, the Fifth U.S. Circuit Court of Appeals handed down a unanimous decision in the matter. The sum and substance was that the commission had goofed. It had not marshaled the "substantial evidence" required by law for such an order. Some of its evidence, indeed, was "worth exactly nothing." To justify its rule embracing schools there was no supporting evidence at all.

On judicial scrutiny, it appeared that much of the evidence relating to irritant effects was merely anecdotal. It was the kind of evidence on which Chanticleer relied: When he crowed in the morning, the sun came up. There

was little to link UFFI with coughs and wheezing in a provable cause-and-effect relationship. The evidence of the 103 rats was, in perspective, not impressive; it was overshadowed by better studies of human subjects, notably studies of 1,106 morticians and more than 4,500 formaldehyde workers, none of whom showed unusual cancer mortality. On procedural grounds, the court held that the commission should have proceeded, if at all, under the Hazardous Substances Act. This would have given the industry an opportunity to challenge the rule in an adversary proceeding where the evidence could have been thoroughly examined.

IN BRIEF, the court found against the commission on every significant point, and the court vacated the ban against UFFI. But because of the attendant publicity, the owners of UFFI homes have seen their property devalued. The business is belly up. There is no feasible way to sue the government for the bad judgment of its agency. The moral to the story, to paraphrase John Marshall, is that not only the power to tax, but also the power to regulate, involves the power to destroy. □

How to create your own economic boom no matter where the economy's heading

THIS IS NO TIME for diplomatic niceties: It simply may be *unwise* to consummate a major financial deal without consulting General Electric Credit Corporation.

You are likely to discover a different and perhaps a *better* way of doing business—whether you are in FORTUNE's 500 or aspire to it. Many have.

The examples below are but a few of the financial packages GECC created last year for the needs of thousands of corporations. We tailor-make each package from a vast storehouse of financial options. We will create a new option on demand and can often tell a company what its needs are!

Read on, ask us questions.

An absorbing short story about Scott Paper's relationship with GECC

Increasingly, new business comes from clients who feel we've created attractive financial packages for them in the past.

With Scott's permission, we thought you might like to have a peek at the underpinnings of two packages constructed by GECC that increased the efficiency of the paper company's financial resources.

The first transaction was for a cogeneration plant in Maine that used wood chips as its primary fuel to

generate steam for Scott's operations and electricity for sale to others. GECC recommended financing the facility with a structure like a leveraged lease.

Two basic steps were employed for the \$91 million project:

1. GECC invested \$47 million in the 25-year financing.
2. Separate public offerings of \$7 million in long-term tax exempt bonds and \$37 million in long-term taxable debt were arranged by a major investment banker.

GECC was then awarded a second piece of business. This transaction, also in Maine, was a leveraged lease

financing of a fiber recycling plant that processes waste paper into pulp for Scott paper products—much more cost efficient than producing the same products from timber.

The basic steps in the second GECC financial package were similar to the first, with GECC contributing \$13 million in equity and leveraged lease debt being raised through public offerings.

GECC's work on the second transaction took a mere 28 days to complete. Two reasons why GECC is able to move so fast is that we have so many options at our disposal and are not overly regulated when we use them.

No pizza pie-in-the-sky talk: GECC's \$30 million line of credit to Eastern Milk for two mozzarella cheese plants

Offhand, you wouldn't think healthy cows would give the largest dairy cooperative in the Northeast a serious financial headache. But Eastern has to market all of the milk their farmers produce.

It began when the cows of Eastern Milk did what healthy cows do in spring and summer: give birth to calves. Nature and school boards added to the pain by doing what *they're* supposed to do.

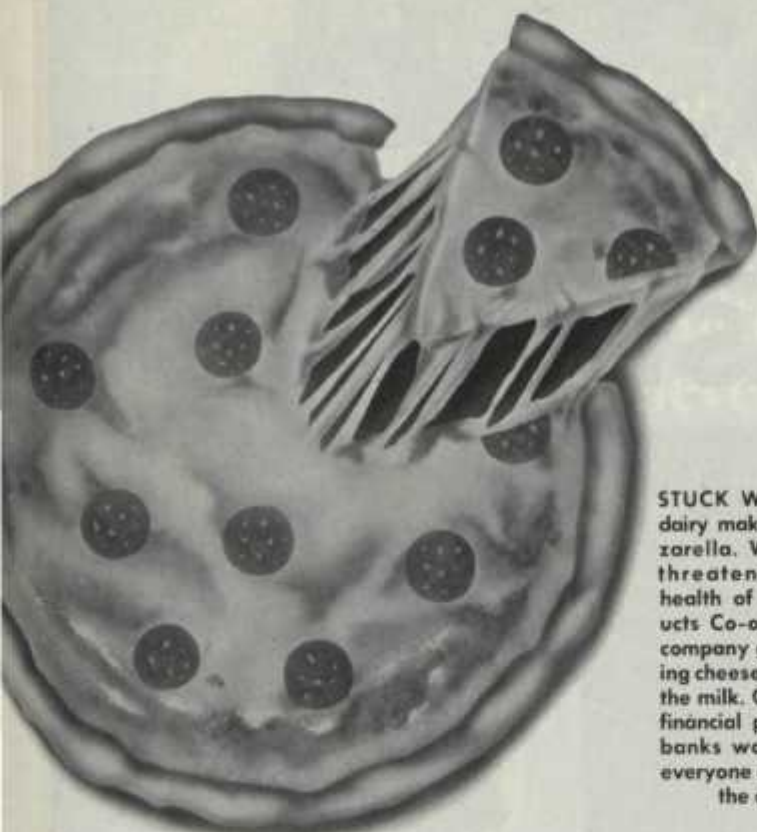
Nature increased the herd's lactation by 25%—normal. The school boards let the kids out for vacation—the law. Result: milk demand plunged.

Disposing of surplus milk was costing the dairy millions a year, requiring additional contributions from its 3,500 member farms. The farms understandably balked—and membership began declining when Eastern got the bright idea of converting milk into mozzarella. They purchased two cheese plants.

The plants, however, needed to be expanded and equipment needed modernization. Capital was short. Banks were delaying action on Eastern's request. Enter GECC.



ONE GECC PROJECT LED TO ANOTHER WITH SCOTT PAPER. We helped Scott finance a cogeneration energy plant to produce steam and electricity from burning wood chips and coal. Later, we designed a leveraged lease for Scott's fiber recycling plant. Together, the two financial packages constitute a commitment of approximately \$60 million.



STUCK WITH MILK, co-op dairy makes 100% real mozzarella. When surplus milk threatened the financial health of Eastern Milk Products Co-op Association, the company got the idea of buying cheese plants to dispose of the milk. GECC put together a financial package—when the banks would not—that had everyone at Eastern, including the cows, mooing.

First step in the Eastern Milk transaction: We sent a detachment of our field people to evaluate the company. They are specialists in every aspect of business, including cows!

GECC's experts discovered that prospects for Eastern's cheese plants were good and that Eastern could greatly improve its borrowing power by improving its accounts receivable billing and improving its collection procedure.

We recommended a computerized receivables program for the dairy. We then provided them with Industrial Revenue Bond guarantees of \$6.5 million. And because we believed the future did look so bright, we extended Eastern a total line of credit of \$30 million for more expansion. Head-ache cured.

So if you live in the Northeast, chances are you've enjoyed a pizza pie made with 100% real mozzarella from Eastern milk products. And as a result, cooperative, cows and calves are doing very well indeed.

Sour condominium market no obstacle as GECC finances one of the largest conversion projects in California history

What our competitors in the real estate market often consider a risky way of doing business, GECC thinks of as innovative and flexible.

The difference between us is well illustrated in the Shelter Creek

condominium project we recently financed in San Bruno, California. Shelter Creek Company faced two seemingly insurmountable problems.

One, end loan money in California had all but dried up. Two, most lenders were out of the conversion financing market because of lagging sales caused by the first problem.

Undismayed—you will have a hard time working for GECC if you ever are—we backed Shelter Creek because we believed it to be a sound project that would bear fruit.

With our commitment, Shelter Creek Company was able to secure a municipal tax exempt bond issue and

provide unit buyers with attractive low interest rate end loan money. GECC created two loans totalling \$38 million for the project, large by any standard, even in the best of times.

Shelter Creek Company got its bond issue financing and so was able to compete very favorably with neighboring condominiums because its buyers could obtain below-market mortgages.

Four other big deals that demonstrate why GECC is one of America's largest diversified financial services companies

Some highlights. For details on these and other financial packages arranged by GECC, mail coupon.

* * *

Three steel deals, \$315 million. A major American steel company decided that leasing, arranged by GECC, provided the best financing terms for its long-term assets.

* * *

Cable TV lease, \$22 million. GECC wrote the first tax oriented lease financing in the industry.

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Famous retail chain, \$50 million. A floating rate loan secured by accounts receivable, inventories, and real estate guaranteed a leading furniture retailer this line of credit.

* * *

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To find out how we do it, mail the coupon. Or call 800-243-2222. In Connecticut, call 800-942-2222. Thank you.

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General Electric Credit Corp.
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I'd like to know more about GECC's ability to create money for business. Please send me your information kit describing 25 additional financial packages you've arranged in recent months and the 1983 revised edition of GECC's "Guide Through the Leasing Maze."

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WASHINGTON LETTER

► WASHINGTON-BASED BUSINESS GROUPS pressing for more restraint on government spending grow increasingly concerned about vacuums in power centers crucial to winning the budget-cut battle. President Reagan doesn't plan to reveal second-term intentions until late summer. But fiscal conservatives in Congress and business community worry that he risks lame-duck image at time when strong statement of 1984 candidacy would enhance his leadership role on budget policy.

► SECOND POLITICAL PROBLEM is centered in Senate, where Majority Leader Howard Baker has announced retirement, and there's extensive jockeying to replace him. In addition, 18 GOP Senators will be up for re-election next year, and many of them remain uncertain about political safety of aggressive stance on broad spending reductions. Overall result is lack of cohesion among majority party in Senate at time when crucial fiscal policy decisions are still to be made.

► IF REPUBLICAN POLITICAL STRATEGISTS went public on choice of an opponent in 1984 presidential race, they'd be sporting Walter Mondale buttons. With the former Vice President and Ohio Sen. John Glenn the Democratic front-runners, Republicans see Mondale as most vulnerable, given his Carter administration background, long identification with Kennedy-O'Neill wing of party. Glenn comes on as more centrist compared with Mondale and is unencumbered by close ties to any of the various party factions. His achievements as pioneer astronaut are, of course, major plus.

► GOVERNMENT CONTRACTORS should be aware of U.S. Supreme Court decision limiting General Accounting Office access to cost

records. Court held in *Bowsher v. Merck & Company* that GAO auditors can review direct manufacturing costs of product sold to government under negotiated contract, but not indirect or allocated costs of R&D, promotion, marketing and administration. Merck lawyers who won case say decision has far-reaching implications for every company that now sells goods to the government or hopes to in future.

► SIMPLIFIED TAX SYSTEM continues to be a favorite topic of elected officials and economists, but action is unlikely until present turmoil over budget abates. Key administration and congressional decision makers on fiscal policy are too involved in current crisis to begin what would be long-term consideration of fundamental changes in way government collects from taxpayers.

► ADMINISTRATION PROPOSAL for tax simplification would probably be some form of consumption tax, replacing income tax in whole or part. Idea is to encourage savings and investments by shielding them from taxes, raise revenues by taxing spending. Morgan Guaranty Trust of New York points out in analysis of consumption-tax concept that nation has already taken steps in that direction, via IRAs and Keogh plans. Funds deposited in them can be deducted from income, subject to ceilings set by law.

► CONTROVERSY OVER FEDERAL LAW allowing bigger trucks on major highways prompts trucking industry to consider major campaign to get its story across to the public. V.J. Adduci, president of Motor Vehicle Manufacturers Association, says industry hasn't responded adequately to "scare tactics" of critics, and "if

WASHINGTON LETTER

we don't get our message across, the future of our industry as we know it could be in jeopardy."

► IF SEN. JOHN TOWER (R-Tex.) decides not to seek new term, that could lead to political clash between two of President Reagan's key political allies, James A. Baker III, one of top White House aides, and Rep. Phil Gramm (R-Tex.) might oppose each other for GOP nomination to replace Tower. Rumors persist on Capitol Hill that Tower is considering retirement after 22 years. (He was first elected, in major upset, to fill seat of Lyndon Johnson when LBJ became Vice President.) Baker is member of Reagan inner circle. All-out support from Gramm, then a Democrat, was important factor in President's major fiscal victories in Congress in 1981. Reagan would be unlikely to take sides in a Baker-Gramm contest.

► POPULATION REFERENCE BUREAU warns against complacency about world growth problems on basis of "much-heralded fertility declines." The Washington-based research organization says the drop is limited to some developing countries, but death rates are also falling, and "the great population surge that began after World War II is continuing." Of particular concern, bureau says, is increase "in those countries and regions that can least provide for their burgeoning populations."

► NUMBER OF PEOPLE in more developed countries is expected to grow to 1.2 billion from present 1.1 billion by end of century, while total population of less developed nations is projected to reach 6.4 billion, compared with present 3.5 billion. For example, population of six northern European countries will, over this period, increase from present 82 million to 84 million, while population of 17 East African countries will rise from 146 million to 249 million.

► AMERICAN FARM BUREAU FEDERATION has served notice on Congress and administration that it will make all-out fight against any move to repeal law raising estate-tax exemption from 1981 level of

\$175,000 to \$600,000 in 1987. One of many tax increase proposals on Capitol Hill calls for holding exemption at 1983 level of \$275,000. Robert B. Delano, farm bureau president, promises to "pull out all the stops" in opposing rollback of law providing "life-giving assistance to family farms and small businesses, which were being eaten to death by estate taxes." Federation also opposes moves to change tax cut set for July 1 and tax indexing to take effect in 1985.

► EMPLOYERS CAN OBTAIN copies of Field Operations Manual that spells out enforcement policies and procedures to be followed by inspectors from the Occupational Safety and Health Administration when on their rounds. Copies will be available shortly, at \$28 each, from Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

► REMEMBER ALL THAT TALK a few years ago about oil-rich foreigners buying up vast amounts of U.S. farm and timber lands? Purchases now stand at 13.5 million acres, just over 1 percent of total. Fifty-five percent of those holdings are forest lands. Three quarters of owners are in Canada, the United Kingdom, Hong Kong, West Germany and the Netherlands Antilles. Largest holdings in any one state are 2.6 million acres in Maine owned by three big foreign timber companies. Foreign owners are required to report holdings under Agricultural Foreign Investment Disclosure Act of 1978, passed in response to congressional concern about reports of massive purchases by interests abroad.

► ONE MORE POLITICAL NOTE: Political strategy outweighed historical omens when the Democrats chose San Francisco for their 1984 convention. The meeting will attract great attention to the party in the nation's most populous state. But the two presidential candidates nominated in that city, Democrat James Cox in 1920 and Republican Barry Goldwater in 1964, suffered crushing defeats by Warren Harding and Lyndon Johnson, respectively.

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Defending Watt

Many of the letters [May] commenting on the article "Behind the Campaign Against Watt" [March] missed the key point of the current environmental debate.

Economic growth and environmental quality can, and must, co-exist. But environmental laws and regulations can be, and are, used to block growth.

Reasonable people do not differ on reasonable environmental goals. The conflict arises from overly complicated government policies and regulations to achieve those goals. Although excessive government constraints could be modified without loss of environmental quality, recommendations for such changes are too often equated with attempts to destroy the environment.

We are still witnessing the century-old debate between progressive conservationists advocating wise use of resources with economic growth and romantic preservationists opposed to any use and to growth.

Industrial environmentalists generally wish to protect the environment through management, meaning the application of systems and technology in the wise use of resources. Interior Secretary James G. Watt is a conservationist who supports that approach. He has never called for damaging the environ-

ment. The basic argument is over balance, which cannot be achieved by mistaking more environmental regulation and preservation with environmental management and conservation.

ROBERT KILMARX
President
International Analysis
Association
Washington, D.C.

Where credit is due

Re: "The Terrible Tangle in Bankruptcy Law" [April].

The events that lead to personal bankruptcy do not happen overnight, but the decision to file usually does. If business wants to cut its losses—and, as Francis Curran of the American Bankers Association says, "get back to providing credit to people who were able to get it previously"—it must adopt a policy of reconsideration and cooperation with its customers.

L.B. WHITENER
Whitener Consultants
Fairfax, Va.

Don't touch that pension

Re: "Reform Federal Pension Systems?" [Where I Stand, April; see page 73, this issue].

I am a retired U.S. Navy yeoman and adamantly oppose military pension reform. Most military retirees fall short of the \$30,000 annual pension cited by advocates of reform. The median retirement age of 39 is probably correct. However, during 20 years, I wager that active military personnel actually work 30 to 40

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The IBM Personal Computer XT

years worth of hours. All in all, I would say that the military person should be fully compensated by a grateful nation for 20 years of service to his country.

DON L. DIEU
Lubbock, Tex.

A little help for your friends

In "Battle Plan for Business in Politics: Stand Firm" [April], Rep. Newt Gingrich (R-Ga.) demands a government that "helps its friends." I didn't know the government had any friends or even how one befriends a government.

Gingrich pronounced inexcusable the government's failure to observe the old Roman rule of punishing one's enemies. Whatever became of that operation?

JAMES W. SYMINGTON
Washington, D.C.

In praise of converters

Contrary to a report in the March Outlook ["Is It Time To Junk Catalytic Converters?"], catalytic converters are making a major contribution to achieving the nation's environmental goals. These dramatic improvements would have been impossible had lead remained in gasoline, since it renders present-day catalytic material inactive. By using the

converters, automakers have been able to minimize the fuel economy loss associated with meeting today's stringent tailpipe standards.

Your article implies that automobiles are a significant contributor to sulfur dioxide emissions—which they definitely are not, regardless of whether they have catalytic converters or not. Since almost all sulfur is removed from gasoline in the refining process, cars are responsible for less than 1 percent of all sulfur dioxide into the air.

R.T. KINGMAN
Director, Public Relations
General Motors Corporation
Washington, D.C.

The facts of life

In "How Not to Create Jobs" [March], James J. Kilpatrick seems to be well aware of the long-term economic benefits of defeating protectionist legislation. But apparently he envisions an ideal trading environment without excessive tariffs or nontariff trade barriers, and with cooperation among all trading partners. He does not mention the greed and prejudices of the trading countries, or how the desire of each one is to be economically the strongest.

The desire for economic dominance

over others is a fact of human nature, and moral protestations from academics and from "do-gooders" like James J. Kilpatrick will never change this. The Spanish amassed great quantities of gold in accord with their mercantile theory of trade centuries ago. Today the Japanese are amassing billions of dollars.

RICHARD CARLBLOM
Alhambra, Calif.

James J. Kilpatrick is plagued by the same tunnel vision that afflicts many who are not affected by the Japanese intrusion into our market place.

Though protectionism is not the answer, Japan must be made to realize free trade is a two-way street. The media and politicians must make this message clear to the Japanese so we may all compete on a common level.

DONALD A. WALTERS
President
Machine Tool Affiliates, Inc.
Indianapolis

If protectionism is such a bad thing, as Kilpatrick seems to believe, then how come it is working so well for the Japanese?

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Defending Yourself Against IRS

By John Hanly Adams

Questions about your rights in a dispute with the Internal Revenue Service are bound to increase as IRS steps up its drive to catch tax cheats. Honest taxpayers will be increasingly at risk, along with the crooks.

Your best defense is a good tax adviser, backed up by some personal understanding of the tax rules—as a check on the advice you get.

IRS itself issues useful guides, including Publication No. 556, "Examination of Returns, Appeal Rights, Refund Claims," and Publication No. 910, listing free aid programs. But rules keep changing.

For instance: IRS has just amended its regulations to allow it to serve notices of levy (used to attach a delinquent taxpayer's property, like a bank account, that is in the hands of a third party) by mail instead of in person, by an IRS employee.

On the taxpayer's side, IRS recently warned its auditors they may enter private premises—your home or office—"only when invited in by the rightful occupant." Note that this does not apply when agents seize assets or take other action sanctioned by formal enforcement procedures or court orders.

Marriage Penalty Deduction

It is hard to believe, but according to an IRS survey many couples overlooked in their 1982 returns the two-earner deduction aimed at offsetting the "marriage penalty."

This new tax break allows a deduction of 5 percent of the smaller of spousal incomes when both spouses work and file jointly, up to a maximum deduction of \$1,500 in 1982. The deduction rises to 10 percent of the qualified income, to a maximum of \$3,000, in 1983, so it will be even more important not to overlook it this year.

You can claim this deduction (on Schedule W with Form 1040 or on line 11 of 1040A) even if you do not itemize other deductions. But the deduction is

figured only on "earned income," so you cannot count pensions, annuities, nontaxable income, IRA payouts, deferred compensation or income one spouse pays another. If you failed to claim the deduction for 1982, you can file an amended return on Form 1040X with the IRS service center where you sent your original return.

You Won't Get Fat

Standard per-day meal allowances in 1983—for deductions of meal expenses while away from home on business travel—are set by IRS at \$14 a day for travel requiring a stay of fewer than 30 days in one locality, or \$9 per day for a stay of more than 30 days.

Taxpayers can still deduct actual meal expenses, rather than using these allowances, by maintaining proper records to substantiate their outlays.

IRA Angles

- A man pulled his money out of an Individual Retirement Account to "roll it over" into what he thought was another IRA paying a higher yield. He completed the transfer in five days—well within the 60 days allowed before tax deferral is lost. But five months later he discovered he had actually invested in an account that did not meet the legal requirements for an IRA. IRS ruled that the money transferred was a "premature distribution" and thus ordinary income subject to income tax plus a 10 percent penalty. IRS said the law provides no relief for a mistake; it has no authority to waive the 60-day limit for rollovers.

- A 1982 law permits a working spouse over 70½ to set up an IRA on behalf of a nonworking spouse and contribute to it until that spouse reaches 70½. If it is a new IRA, it must be set up in the nonworking spouse's name and thus owned by that person. Contributions can be as much as \$2,000 a year (a younger worker may contribute no more than \$250 a year for a nonworking spouse) and must stop after the year in which the nonworking spouse reaches 70½.

- IRS approved a plan under which

an IRA owner will get \$1,200 a year in quarterly payments from the IRA after reaching age 65; that figure is based on the joint life expectancy of the owner and spouse. When the owner dies or reaches 70½, payments will increase so that the IRA balance will be paid out within the remaining life expectancy of the surviving spouse or owner and spouse. The owner retains the option to change the payments schedule until age 70½; the spouse can make additional withdrawals if needed for medical expenses.

When Is a Farm a Hobby?

A part-time farmer often cannot deduct losses on farm and animal ventures (horse breeding, say) because IRS holds the farm is just a hobby, not run for profit. A new court decision, however, shows that when the facts are right, you can prevail.

The case involved an advertising man who bought a dilapidated dairy farm with a definite plan to make the land pay. He kept his job in the city but worked at the farm on weekends, restoring the house and orchard, contracting with a tenant farmer who agreed to convert 10 acres a year to tillable crops, helping neighborhood farmers for the sake of the experience and boning up on trade journals and experts' advice. His books showed \$18,500 in losses over the first two years.

IRS disallowed the losses as deductions, and the Tax Court agreed. But the U.S. Court of Appeals for the Seventh Circuit ruled that, although the taxpayer may have spent little time at the farm, he clearly intended to make it profitable at some future date.

For Direct Sellers

To clear up confusion over tax deductions available to people who sell goods and services door to door, at neighborhood "parties" and in other direct ways—and over the employment-tax status of such individuals—IRS now offers "Tax Information for Direct Sellers." Ask the nearest IRS office for Publication No. 911. □

Note: For Your Tax File is an information service for readers. See tax and legal advisers for guidance on all specific cases.

DISCs: A Big Issue for Small Exporters



A foreign trade zone, like this underground facility in Kansas City, Mo., is a site within the United States where foreign goods are not subject to customs duties.

If the Reagan administration and Congress listen to small business exporters, there could be greater opportunities for such firms as a result of the demise, after 12 years, of the Domestic International Sales Corporation program.

The DISC program encourages exports by permitting a company to defer taxes on as much as half of its foreign sales income.

Objections to DISCs were raised by other countries that are, like the United States, signatories to the General Agreement on Tariffs and Trade. Last year the GATT council ruled that the DISC program violated the treaty, and U.S. Trade Representative William Brock promised that the administration would come up with an alternative that would, among other things, be usable by small business.

Under one idea now being considered by the administration, foreign sales corporations would be incorporated outside the United States. A portion of each new corporation's income from export sales would be exempt from U.S. taxes.

Evan A. Werling, vice president for finance of the French Oil Mill Machinery Company, a small firm in Ohio, told a subcommittee of the House Small Business Committee that "the main

problem for small business with the administration's proposal is that many activities are required to be performed outside the United States."

Another administration proposal would permit an exporter to continue to operate as a DISC for sales up to \$10 million a year (currently, 85 percent of the companies using the DISC program have sales lower than that). But the exporter would be required to pay interest to the government on the deferred taxes.

Werling, testifying for the U.S. Chamber of Commerce, told the subcommittee that this was not attractive to the small exporter either, "since the only value of a tax deferral is the time value of money, and paying an interest charge on that deferral would eliminate its benefit."

The U.S. Chamber has offered an alternative proposal involving the use of foreign trade zones.

A foreign trade zone is a site located within the United States where foreign and domestic merchandise is considered generally as being outside U.S. customs territory. Such zones would thus qualify as areas in which small business foreign sales corporations could be located and conform to the GATT criteria.

But, Werling warned, "use of the

concept would only work if the activities required to be performed in them were minimal in effect. Small business should not be required to move substantial operations to such zones."

A Bright Future For Equipment Leasing?

Continuing high interest rates, fueled by federal deficit spending, could make equipment leasing a more attractive alternative for a growing number of small U.S. companies. The Bank of America predicts that leasing will become one of the fastest growing industries in the 1980s.

The American Association of Equipment Lessors estimates the value of the capital assets covered by all outstanding equipment leases at \$200 billion. About 20 percent of all new equipment put into use each year is lease-financed, the Bank of America says.

Predicasts, a Cleveland-based market research and business information firm, says the U.S. leasing industry can expect to grow more than 11 percent annually through 1990. Although third-party leasing will remain dominant during the decade, the firm predicts that leasing by manufacturers will be important, particularly in agriculture, where sales depend on the manufacturers' ability to arrange financing.

The FTC Tells How To Stay Out of Trouble

For the small business person who wants to stay clear of the Federal Trade Commission, a new publication is on the way. *Marketing and Advertising for Small Business* is scheduled for publication this summer. It will join such FTC manuals as *How to Advertise Consumer Credit*, an invaluable reference for the business that writes its own ads.

If certain terms—called "triggers"—are used in an ad, the ad must also contain specific disclosures. If the business steers clear of these triggers, there is no requirement to make the disclosures.

Also available are *Writing a Readable Warranty*, *Making Business Sense of Warranty Law and Handling Consumer Complaints—In-house and Third Party Strategies*.

FTC publications are available from the Federal Trade Commission Distribution Office, Sixth Street and Pennsylvania Avenue, N.W., Washington, D.C. 20580.

Clearing the Way for Bigger Trucks

Look for wider, longer and heavier truck trailers on federal highways this summer and fall under legislation Congress approved this year to help the trucking industry absorb new taxes for improved roads.

The legislation overrode some state laws that prohibited bigger trucks and established a national truck transit plan that will allow jumbo trailers to pass through "barrier states" like Illinois and Missouri. The Department of Transportation estimates that the industry will save about \$5 billion annually under the national plan.

Trailers can now be six inches wider than before, to a span of 102 inches, and can weigh 80,000 pounds. A single trailer can be 48 feet long, and twin trailers pulled by one truck can be 28 feet long each. Before the law was enacted, 12 states banned twin trailers. The longest truck-trailer combination on the road can now be 70 feet from the bumper of the truck to the back bumper of the second trailer.

Some state officials, concerned about

how hazardous the big trucks may be on roads connecting main federal highways, are still negotiating with the Federal Highway Administration over which routes the trucks will take.

Trolleys Are Jolly, Planners Decide

Urban mass transit planners all over the country are turning back the clock with proposals to revive electric trolley service. Much more is involved than a wave of nostalgia.

Pittsburgh is reconstructing a half-century-old trolley system covering 22.5 miles. Light rail lines, as the trolleys are now called, are being built in Buffalo and upgraded in Boston, Cleveland and Philadelphia. In Memphis, St. Louis and Dallas, city officials are reviewing the concept. A line now runs from San Diego to the Mexican border.

"I think we'll see a lot more of



PHOTO: P.A. TRANSIT



Pittsburgh is rebuilding its 50-year-old trolley system of 22.5 miles, replacing vintage cars with sleek new models.

them," says Joseph Marshall of the Urban Mass Transit Administration, which is funding some of the trolley development. "A combination of a lot of things makes it a good system. They use clean electric power and are more energy efficient." He adds that it is also a lot cheaper to build on the surface than to tunnel beneath a city.

ENERGY

Strategic Reserves: Filling Fast Enough?

The Reagan administration's plans to put less oil into the Strategic Petroleum Reserve will be challenged in Congress this year, perhaps successfully, by a bipartisan group led by James McClure (R-Idaho), chairman of the Senate Energy and Natural Resources Committee.

The Energy Department says \$1.57 billion can be saved in fiscal 1984 if the fill rate is reduced from the 220,000 barrels per day mandated by Congress to 145,000 barrels per day. With 306 million barrels already in the SPR, enough to make up for an 11-month disruption of imports, less funding can be safely

budgeted, the administration contends.

Any fill rate under 220,000 barrels, McClure warns, is unlawful and unwise. "One of the only tools available to protect America in case of an international oil shortage is the SPR. It is extremely important that we continue to fill the reserve to the set goal of 750 million barrels."

SPR Director Richard Furiga, noting that the administration fully supports maintaining the reserve, says the cut-back "certainly doesn't reflect a lack of enthusiasm and interest on the administration's part. It reflects budget constraints."

The SPR has always been popular in Congress and, in years past, Congress has appropriated higher amounts for filling it than several administrations have requested.

Russia May Soon Be Thirsty for Oil

The Soviet Union faces an energy crisis that "will severely challenge and strain" relations with its Eastern European satellites and possibly force it to look south to the Persian Gulf for more oil, warns a report published by the

Center for Strategic and International Studies at Georgetown University.

Later in this decade, "the availability of oil is in serious doubt and delays or shortfalls in remaining Soviet hydrocarbon [natural gas and coal] exports and conservation and substitution programs [to more energy-efficient fuels] will probably result in inter-Warsaw bloc competition for scarce resources ... as they try to cope with stagnating economies made worse by an energy crisis," writes Jonathan Stein in *The Soviet Bloc, Energy and Western Security*.

The Soviet Union has an abundance of coal and natural gas, but most of these proven reserves lie east of the Ural Mountains, far from the population centers of western Russia and Europe. Transporting these fuels will be very expensive.

The Eastern European nations' demand for Soviet energy exports has boomed, from \$2 billion in 1971 to \$24 billion in 1980.

Throughout the Soviet empire, attempts are being made to conserve and to use natural gas instead of oil, but these conversion efforts are very expensive and compete with the capital demands of an ongoing industrial modernization program.

PHOTO: AMERICAN PETROLEUM INSTITUTE



Brine is drained from Louisiana caverns where the U.S. will hold oil in reserve.

Keeping Track of Securities Trading

Self-regulation is the buzz word in the securities industry these days, and it is becoming more of a reality.

For the past two years, officials of the nation's stock exchanges and of the National Association of Securities Dealers have been developing—through an industry panel, the Intermarket Surveillance Group—a computerized system to keep a sharp eye on trading activities on the stock and options markets. When the program is firmly in place, each exchange will be able to know who has bought and sold shares of a particular stock, nationwide.

The Securities and Exchange Commission has been working with the industry panel, and in a recent report to Congress the SEC predicted that the program should be fully operational next year.

Fred Hoevenaar, vice president of market surveillance for the New York Stock Exchange, says that, so far, the intermarket surveillance program has been an effective way to uncover manipulation of equities when, for instance, one stock is traded on both the New York and American stock exchanges.

The specific kinds of stock manipula-

tion that concern the group are "fairly classic ones," Hoevenaar explains, "be it insider trading across several markets or mini-manipulation," when someone attempts to affect the price of a stock in order to enhance an option's value.

Round Two For Enterprise Zones

Rep. Henry Nowak (D-N.Y.) has introduced enterprise zone legislation similar to a bill he offered last year. "Conceptually, the bill is the same as last year's," Nowak says. But this year's bill goes beyond offering tax incentives and regulatory relief, as the 1982 bill did. The new proposal is designed to lure business development to distressed areas through grants and loans, as well as tax advantages.

To qualify as an enterprise zone under the bill, an area must have a population of 5,000 or more and an unemployment rate that is 1 percent higher than the national average, and it must have recently experienced a sudden economic dislocation resulting in job loss.

Employers would get a tax credit for hiring qualified employees; they could



The Nowak bill includes an investment credit for rehabilitating old buildings.

include laid-off workers unlikely to return to their previous jobs, workers laid off because of plant closings, the long-term unemployed and the socially disadvantaged. The credit would equal 50 percent of the employee's wages for the first three years.

Eligible small firms could receive as much as \$500,000 for capital or operating expenses from the Small Business Administration.

INTERNATIONAL

Would a New Tax Help Detroit Compete?

A top Ford Motor Company executive, David N. McCammon, believes that the tax-writing committees of Congress should consider setting up a new tax structure for U.S. automobile manufacturers. The aim of the change would be to allow the American firms to compete on an equal footing with Japanese and European car manufacturers.

McCammon, Ford's vice president for corporate strategy and analysis, is opposed to organized labor's current push for passage of a domestic content bill.

PHOTO: FORD MOTOR COMPANY



David McCammon: He favors excise taxes on car sales, with rebates to U.S. firms.

Such a bill would mandate that as much as 90 percent of each car sold in America be built with U.S. parts and labor.

Like many others in the U.S. automotive industry, McCammon thinks that in the long run a domestic content bill could cost more U.S. jobs than it saved, since retaliatory trade barriers might be imposed on American exports by other nations.

McCammon endorses a plan similar to one suggested by John J. Nevin, board chairman of the Firestone Tire & Rubber Company. Nevin says the United States should impose excise taxes of 17.5 to 22.5 percent on all cars sold in this country—with those taxes rebated to domestic manufacturers.

Such a tax, says McCammon, "would give our country parity with the Japanese commodity tax and similar levies imposed by Common Market nations."

A Teacher Shortage That Threatens Growth

Serious shortages of U.S. high school teachers of chemistry, math and physics in at least 38 states threaten to leave America well behind Japan, Germany and Russia in the education of the sci-

entists and engineers needed for business growth. That is one major finding of a blue-ribbon National Research Council panel, which spent 18 months looking into America's long-range needs in the highly competitive world market in technology.

In a 55-page report, the panel of distinguished corporate, academic and public figures told the Senate Finance Committee that traditional U.S. leadership in technology has been slipping steadily for 10 years.

One solution, says the panel, is to establish a cabinet-level committee to oversee and coordinate the nation's international trade policies. The policies affecting technological innovation are fragmented, panelists complain, because federal agencies are not communicating with each other.

On a grass-roots level, the panel says, local school boards have to lure science teachers back to the classroom again. Already, the report warns, U.S. high school graduates are inferior to their counterparts in Japan, Germany and Russia in understanding science and technology.

A sure sign of trouble ahead: In May Georgetown University in Washington dropped its graduate physics programs due to lack of student interest.

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According to Dr. David Birch, one of the nation's foremost experts on U.S. business trends, the growth industries of the future are in the world of small knowledge-based service businesses. And Michigan offers a great number of opportunities to such firms.

His sentiments are echoed by the actions of the many businesses that have already selected Michigan as the premier site for growth.

As Dr. Birch points out, "...the small business group in Michigan is a very, very active group. This segment in Michigan has created one-and-a-half jobs for every job that larger-sized businesses created. In fact, manufacturers with 20 or fewer employees are still growing and booming in Michigan."

One big reason is our educational system. With schools such as the University of Michigan, Michigan State University, Wayne State University, and Michigan Technological University, we're home to four of America's national research universities.

"Michigan has the university base to sustain that service growth," says Dr. Birch. "I would expect to find Michigan in much the same strong position that Massachusetts is in today within the next five to eight years."

You'll be hard pressed to find any state more

committed to the future than Michigan. To make good on that commitment, we've made over \$350 million in venture capital available from the state's retirement fund and developed several new sources of debt capital. And we've set up three "Centers of Excellence" whose prime purpose is to serve as research and development resources for business.

Together, the Industrial Technology Institute in Ann Arbor, the Molecular Biology Institute in East Lansing and the Metropolitan Center for High Technology in Detroit will be backed by initial funding commitments in excess of \$100 million from public and private sources.

The long and short of it is this. The spirit of entrepreneurship is alive, well, growing and most importantly, welcome here.

If you want to increase your chances of success, take the advice of Dr. Birch, and talk to the pro-business professionals in Michigan's Office of Economic Development. Then say yes to Michigan.

—Dr. David Birch, Economist, Massachusetts Institute of Technology

To find out more, call toll free: 1-800-I SAY YES (In Michigan: 1-800-292-9544) or simply write on your business letterhead and mail to:

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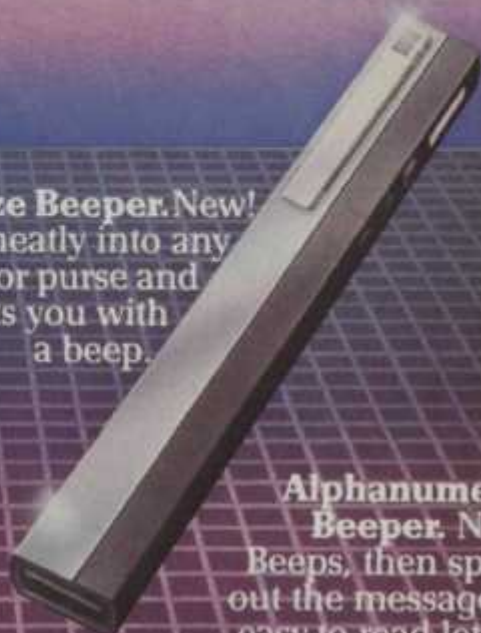
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The Budget Act May Get an Overhaul

Pressures for major revisions in the congressional budget process are virtually certain in the wake of this year's long impasse.

Expected are conflicting proposals for both strengthening and weakening the Congressional Budget Reform Act of 1974.

That historic legislation established for the first time a procedure by which the annual federal budget was to be considered in terms of total spending and total revenues. Previously, Congress had processed 13 separate appropriations bills each year without reference to a bottom line or to whether there was sufficient revenue to finance all the anticipated spending.

Under the reform act, newly created budget committees were given author-

days late the next year and 86 days late the following year. Last year, the preliminary resolution was enacted 39 days late and was given binding status because it was questionable whether Congress would ever get around to a second resolution.

Hopes that dealing with total spending figures would be an incentive to budget restraint have also failed to materialize: Federal outlays accounted for 19.5 percent of the gross national product when the budget reform act was passed in 1974; they now stand at 25.2 percent.

Reforms proposed by those seeking to strengthen the act include use of a single, binding resolution each year, a two-year budget cycle in place of the present one-year system and inclusion

the early stages of an economic recovery," the CED report says the slowdown in productivity growth that began during the 1970s is "still cause for serious concern."

The study was prepared by the Research and Policy Committee of CED, a research and educational organization of 200 top business executives and educators. It says:

"In the long run, productivity improvement is inextricably tied to private enterprise, the driving force of which—entrepreneurship—provides the willingness to venture onto uncharted paths."

The committee notes that the nations with the highest productivity gains rely on market mechanisms and that none has a centrally directed economy or an industrial base that is predominantly nationalized.

CED recommendations for improving productivity include actions by government to:

- Remove impediments to saving and investment.
- Reduce inefficient regulatory restraints.
- Lessen inhibitions to movement of capital, labor and other resources toward the most promising prospects for productivity growth.
- Create a climate that encourages entrepreneurial initiative for increased productivity.
- Support basic research to preserve U.S. technological leadership.

The Spending Trend Is Toward Services

If present trends continue, Americans will spend more on services than on goods this year for the first time in the nation's history.

The gap has been narrowing in recent years. Personal consumption expenditures in 1981 were \$961 billion for goods and \$874 billion for services. The 1982 totals were \$1.04 trillion and \$966 billion, respectively.

Current figures from the Commerce Department's bureau of economic analysis show goods and services each running at an annual rate of \$1.03 trillion.

Bureau reports over the next few months are expected to show the annual rate of expenditures on services pulling ahead of that for goods.

Inflation's toll on purchasing power over the past decade is evident in the same report by the economic analysis bureau. While total personal consumption expenditures are running at an annual rate of more than \$2 trillion, that figure expressed in constant 1972 dollars is \$972 billion, well under half the current-dollar total.



Chairman Pete Domenici (right) and senior Democrat Lawton Chiles of the Senate Budget Committee would have major roles in revisions of the budget reform act.

ity to deal with aggregate spending and revenues.

The law required that a preliminary budget resolution be enacted by May 15 and a final, binding resolution by September 15, two weeks before the scheduled start of a new fiscal year. Although committees that had traditionally set spending levels in specific areas were retained, the budget act contained provisions to force them to comply with mandates in the budget resolutions.

Implementation of the budget act has disappointed supporters who had hoped it would assure orderly consideration of fiscal decisions and slow the increase of federal spending.

The schedule for action was observed fairly well in the first few years, but went awry in late 1979. The second resolution was 74 days late that year, 66

in the budget of the vast array of federal credit programs not now considered part of the annual fiscal policy process.

On the other hand, there are reports that chairmen of long-established committees of Congress see the present problems surrounding the budget process as an opportunity for them to regain power they lost when the reform act was adopted.

Productivity Gains: Are They Illusory?

Recent U.S. gains in productivity "should not lull us into a false sense of security," the Committee for Economic Development says in calling for steps to bring about permanent gains.

Describing increases of the past few months as "probably a temporary phenomenon that can be expected during



SOVIET SPIES:

Your Firm Could Be Their Next Target

A "sophisticated assault" on U.S. business is under way. Both the country and individual companies have much at stake.

By Henry Eason

SEVERAL YEARS AGO, a group of Soviet specialists in aeronautics was taken on a State Department-sponsored tour of three American plane factories. The Russians visited plants operated by Lockheed, Boeing and McDonnell-Douglas—all major defense contractors.

At one plant, in Burbank, Calif., Lockheed was manufacturing the L-1011 commercial wide-body plane. The Russians were kept far away from sensitive defense facilities at the same plant; however, there seemed no harm in showing them how a civilian aircraft was made.

But the Soviet visitors had their own reasons for being interested in the L-1011. It was a big, lightweight plane that could carry large numbers of people at a high speed. The Russians had not figured out how to make such a plane themselves.

The specialists visiting the Lockheed plant were wearing shoes with adhesive soles. Metal particles picked up on the soles at the plant (and at the other two plants as well) were later analyzed in a Moscow laboratory. From that analysis, the Soviets learned enough about jumbo-jet metallurgy to build bigger and faster troop- and cargo-carrying aircraft.

An Eastern European revealed that bit of Soviet trickery in 1981, after defecting to the West. The sticky-shoes

episode is just one example of what American intelligence officials say is a mounting Soviet campaign to spy on the American businesses that give the United States its edge over the Russians in military technology.

The Soviet campaign is putting an enormous strain on American counterespionage resources, at a time when President Reagan's defense buildup is bringing more companies of all sizes into defense-related activities. Many of these businesses have never thought of themselves as potential targets of Communist spies.

Over 3,000 officials from Communist countries—about 35 percent of them spies—work out of 180 offices in the United States, according to the Federal Bureau of Investigation. Also, many of the thousands of tourists, students and trade representatives who come from Communist nations each year to the United States actually are on intelligence-gathering missions.

FBI Director William Webster said recently, "I do not think there's been another time in our history when our country has been under such a sophisticated espionage assault."

Despite the United States' "very aggressive campaign" to foil spy opera-

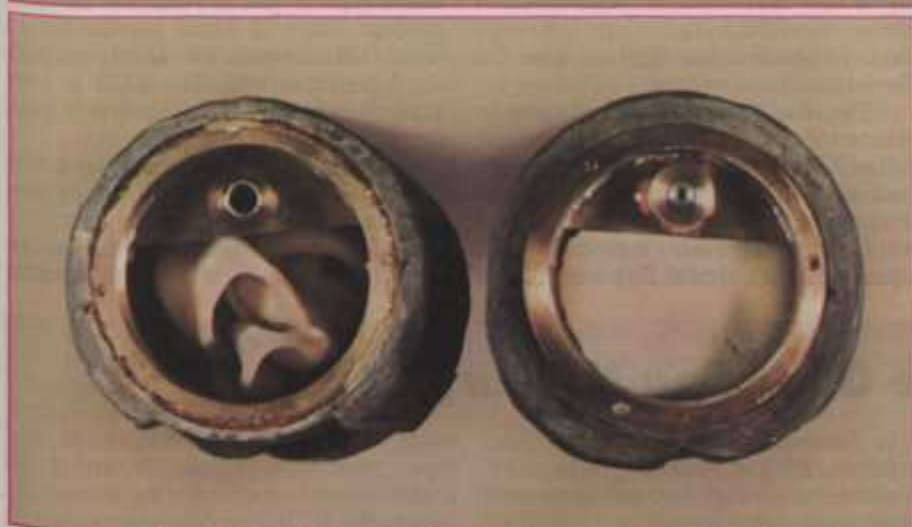


"The Soviet KGB spy manual says Americans can be bought," says FBI counterintelligence chief Edward O'Malley. "Unfortunately, that's quite accurate."

tions, says Edward O'Malley, head of the FBI's counterintelligence division, "we have manpower problems. There are more Communist officials here than there are FBI people engaged in counterintelligence."

IN APRIL Soviet espionage plots were uncovered in France, the United States and Australia. French authorities expelled 47 Soviet diplomats found trying to steal military secrets; three diplomats were expelled by American authorities and one by the Australians. Observers say the expulsions reflect more the dramatic upswing in Soviet spying than improved Western counterintelligence.

"U.S. counterintelligence efforts are stretched thin," the Central Intelligence Agency warned in a recent report. "It appears that Western industrial security—both defense and commercial—will be severely tested by the Soviet intelligence services and their



FBI agents believe that this hollow 16-inch statuette was used by a Polish intelligence officer to conceal film of Hughes Aircraft designs for fighter plane radar. The designs were sold to the Pole by an American in 1981.



The Soviet Embassy in Washington, bristling with rooftop gadgetry, is the command center for thousands of agents.

surrogates among the Eastern European satellites during the 1980s."

Soviet-bloc spies in the United States have targeted the 12,000 or more companies working on defense contracts, the thousands of defense subcontractors and other companies whose high-technology products could be put to military uses. Most defense contractors are small or medium-sized and have modest security programs. Some of the high-tech firms have no security programs at all.

More than 1 million people work on classified, secret or top secret defense projects for the government. Recruiting agents from this vast pool of people is a favored method of Soviet spies.

The Pentagon's Defense Investigative Service, which clears all employees working on military projects, is struggling with a huge backlog. DIS Director Thomas O'Brien's 1,153 overworked agents will make 181,000 clearance investigations and reinvestigations this

year—"a tremendous workload," says O'Brien. DIS has melted last year's backlog of 84,000 cases down to 36,000, but critics say the agency cut corners to reduce the backlog.

DIS "is sacrificing a lot of quality in its investigations in order to catch up," complains David Martin, who recently completed a Heritage Foundation-sponsored study that warns of a government-wide security problem.

In the past DIS conducted "full field" investigations during which neighbors, co-workers and acquaintances of an applicant for a defense job were interviewed. With its heavy workload, the agency now interviews the candidates and does record checks instead of more extensive checking, although it hopes to reduce its backlog further and resume more detailed reviews this summer. O'Brien says the present method makes better use of an investigator's time and is sound but not foolproof.

Critics have insisted that defense

workers should be reinvestigated after their initial security check to determine whether changes in their personal lives might make them more vulnerable to the overtures of Soviet spies. DIS began performing reinvestigations in April, but its backlog is huge.

THE FEAR that employees could be lured by Soviet intelligence agents permeates even the more heavily secured defense firms, like Lockheed's Missiles and Space Company, of Sunnyvale, Calif., which makes Trident submarine-launched nuclear missiles and is researching the kind of laser weaponry that President Reagan says is needed for future antiballistic missiles.

James Fitch, director of Lockheed's 400-person security force at Sunnyvale, says, "There are probably espionage attempts all the time. It could happen to me this afternoon, or maybe it's happening already and I don't know it."

California, with its string of defense



PHOTO: HUGHES AIRCRAFT COMPANY

A technician adjusts the boresight of a laser rangefinder used on the XM1 tank—the kind of technology Soviet spies covet.

factories and high-tech firms running from San Diego to the "Silicon Valley" south of San Francisco, has become the happy hunting ground of the Soviet KGB, which controls all Warsaw Pact nations' spy services.

The KGB scored two of its biggest victories in the Los Angeles area. Christopher John Boyce stole highly sensitive satellite technology from TRW in 1977 and sold it to the Russians, and William Holden Bell funneled Hughes Aircraft designs for fighter plane radar to a Polish intelligence officer in 1981. The two Americans were eventually

caught, but not before they had seriously compromised advanced American weapons.

"Boyce and Bell" has become a cry equivalent to "Remember the Alamo!" for United States intelligence officers and plant security chiefs. They are working hard to prevent similar cases, but the odds are stacked against them. Soviet bloc spies are on the offensive: They recruit individuals, they gather useful material from public documents and seminars, and they make illegal purchases of militarily significant goods through middlemen.

COMMUNIST SPIES are focusing increasingly on individuals, especially those who work for small companies with lower awareness of security. They move into the lives of these people, showing a chameleon's ability to adapt.

O'Malley, the top FBI spy catcher—he is the real-life U.S. equivalent of British novelist John le Carré's George Smiley—sheds some light on how the Soviets operate:

"The Russian that the American meets today is not a 5-foot-2-inch-wide, 5-foot-2-inch-tall man wearing a baggy suit with a long beard and unable to speak English very well. No, this is a very suave, eloquent individual, who speaks English almost flawlessly. He is

dressed very casually in a modish leather jacket with jeans and a cowboy hat, or he might look like he has just come from the 18th green at Burning Tree [a Washington country club].

"He knows the American is wary, so he will portray himself as an individual, rather than as a Soviet. He may even bitterly criticize his own country. The American thinks: 'He's not such a bad fellow. He's not trying to coerce me. He's a nice man. So what if he takes me out to lunch?' The Russian will try to cultivate the American socially. If that American is a New York Mets fan, I guarantee you that within a short time that Soviet will know more about the Mets than he does."

The Russian's objective, O'Malley says, is to move subtly from a casual business meeting to a recreational and even family relationship. The psychologically trained Soviet intelligence officer wants to get beyond the target's professional and social personality to what O'Malley calls his "third personality," his inner self. The KGB is very patient in burrowing toward this goal, he says.

Bell, a 30-year Hughes employe, was cultivated in this fashion by a spy posing as a Polish trading company official. The Pole moved into Bell's apartment complex. Their families became

A Guide to Guarding Military Secrets

Tens of thousands of American companies are doing business in defense and defense-related fields, and several thousand intelligence officers from Soviet bloc and Soviet-influenced nations and China are believed to be spying on them.

According to a Central Intelligence Agency assessment, "Security provided by commercial firms is no match for the human penetration operations of foreign intelligence services." Federal Bureau of Investigation Director William Webster calls on American business to take stronger steps to protect itself.

Here are some guidelines government agencies offer for better protection against espionage. American business people should be aware that:

- Scrimping on security programs could be penny-wise and dollar-foolish. More comprehensive antispionage educational programs are needed, especially in small companies, which are often at the forefront of new technology and are more vulnerable to Soviet penetration than major defense contractors with well-developed security departments.

- Spy operations are not confined

to Washington, New York and California. FBI officials say espionage nests have been formed in almost 200 locations.

- You could be doing business unknowingly with a firm whose main goal is illegal acquisition of your goods and services. Just because a company is chartered to operate in the United States, do not assume that it has been sanctioned by the government.

- Soviet bloc spy services have been making increasing use of individuals and companies with no direct links to Communist countries—"open brokers" who act as middlemen.

- American companies are being urged by the government to more thoroughly check firms with which they deal. This warning applies particularly to companies whose products are not restricted for sale but could have military applications.

- "Human assets"—Americans who understand sensitive defense systems and can steal what the Soviets cannot obtain in an open environment—are believed to be of primary interest to the KGB, the Soviet spy service. Even custodial workers who

might have access to carbon sheets, typewriter ribbons and discarded drafts of vital reports can be important to the KGB. The best approach, according to the FBI, is for employers to discourage their employees from having social relations with anyone suspected of spying.

- Soviet bloc countries are particularly interested in the following types of American industrial activity: computers, semiconductors, communications, transportation, lasers and optics, nuclear physics, microbiology, chemistry and energy, as well as defense.

For further information on espionage methods and on products the government believes the Soviets desire, contact: Arms Licensing Division, Office of Munitions Control, U.S. State Department, Washington, D.C. 20420, (202) 235-9761; or Exporters Service Staff, Office of Export Administration, U.S. Commerce Department, Washington, D.C. 20230, (202) 377-4811. For a copy of the CIA report, "Soviet Acquisition of Western Technology," write: Defense Industrial Security Institute, Security Awareness Division, c/o DGSC, Richmond, Va. 23297.

How the KGB Spins Its Web

This is a composite KGB operation, based on interviews with Federal Bureau of Investigation and Defense Department counterintelligence officers and on material provided by them.

A Detroit-based Hungarian importer and his wife make friends with an American tank manufacturing engineer and his wife at a reception after a symphony concert. The Americans find the Hungarians entertaining and are delighted to be invited to dinner the following weekend. At a jazz bar after the dinner, the Hungarian's wife notices that the American man is boastful but guarded about his work.

The importer, a spy under indirect control of the KGB (the Soviet intelligence service), reports the meeting to his superiors. After a strong show of interest by Soviet military intelligence, the KGB orders the Hungarian to develop his budding relationship with the American.

Over the next few months, always careful not to inquire about the

American's work, the Hungarians cultivate a purely personal relationship with the Detroiters. One evening, after a number of cocktails, the apparently drunk Hungarian curses his Communist overlords.

He and the American engineer, now fast and trusting friends, go sailing one afternoon, and the American confesses he has an expensive young mistress who is squeezing his pocketbook and hinting that she may leave him if he is not more generous. He is worried that he cannot cover his debts much longer.

Later, at a Detroit Lions game, the Hungarian introduces the American to a friend, a "false flag" East German who is posing as a West German defense consultant. The second relationship flourishes. The German offers to hire the American in the near future. His firm, he says, has a regular relationship with a West German armaments maker. The job would pay 50 percent more than the American is now making. But the German firm wants to see some samples of the American's work.

The American cannot do much checking on the German without arousing suspicion. He smuggles out some of his engineering designs but gives the German no top secret material. The German appears satisfied but reports back later that executives at his firm must see more elaborate work, a better taste of the American talent they are about to hire. The American has already adjusted himself to his anticipated higher salary and has, indeed, accepted a small part of it against future wages.

Pondering his dilemma late at night in his office, he has second thoughts, even though he believes he may already have violated some federal law. Sighing wearily, he phones the local FBI office.

Then, working with his own government, the American allows himself to be drawn deeper into the web, until one morning an FBI intelligence division squad arrests the Hungarian, the East German and their accomplices.

Since they are not accredited diplomats, who have immunity, they all go to jail under the Espionage Act.

fast friends. They played tennis. When the Internal Revenue Service began pressuring Bell for back taxes and he was sapped by other financial demands, the Pole discreetly gave him money, then more money, until he had passed Bell a total of \$170,000.

Greed, experts say, is what usually motivates the American turncoat today. The Soviets rarely attempt to persuade an American to accept Marxist doctrine, as they once frequently did. The KGB manual preaches using capitalism on the capitalist, O'Malley says.

WITH ITS RESOURCES strained, the government cannot operate effectively unless employees approached by foreign spies report immediately to the FBI or their security officers. Flirting with the KGB, says one FBI agent, is like being an amateur snake charmer: "Once you get the cobra to come out of the basket, then what do you do?"

"It's amazing how people get involved in these things and don't realize what's happening," says Robert Gast II, head of the FBI's San Francisco office, the chief counterespionage center in the Silicon Valley area.

Gast adds: "I am concerned about the smaller companies, the emerging ones, where a couple of guys leave one of the major companies with a new idea. Security is one of the last things the smaller companies will go for, because it doesn't, to be trite, go to the bottom line."

It's expensive, and you don't see any cost benefits from it. Some of those small companies are on the cutting edge of technology and are certainly targets for the Soviet intelligence services."

Sen. Sam Nunn (D-Ga.), under whose leadership the Senate Permanent Subcommittee on Investigations last year spotlighted the drain of American technology—through a variety of conduits—to the Soviet Union, says the private sector has to get more involved in fighting Soviet spying. He suggests that defense contracts should require extensive anti-spy educational programs that will free hard-pressed federal agents for more field work.

American companies can lose their defense contracts—with the U.S. government and allied governments—if serious security breaches occur. But combating espionage is not easy for business, whose primary goals are to produce goods and services and make a profit. Often the federal government's myriad, confusing regulations governing defense goods' production and sale leave the businessman "concerned, confused and perplexed," says George Moringo, who runs an FBI program for development of counterintelligence awareness in the San Francisco area. "The businessman is caught in the middle," he says, "between selling products and helping national security."

John Shea, president of Technology Analysis Group, Inc., which performs

security evaluations of semiconductor firms for the Pentagon and the Central Intelligence Agency, says, "Most firms are more concerned about whether a competitor steals from them than whether the Soviet bloc is laying hands on their products."

Zilog, a San Jose computer systems firm that produces some militarily useful wares, cannot vouch for the ultimate purchasers of goods it sells through distributors, says President Frank deWeeger.

"We are powerless to come to grips with it," deWeeger says. "We try to comply with the laws, but you can't screen every order that comes in."

If the United States and the Soviet Union or their allies ever clash on a battlefield, the outcome will depend on the quality of weapons. For now, the combat is taking place in the shadowy world of defense industrial espionage. There, the Soviets are making gains in quality that enhance the edge they already have in numbers. □



Sam Nunn: Thefts are "massive."

Should Gender Affect Pensions?

Women live longer, but there are moves to ban distinctions in benefits.

By Mary-Margaret Wantuck

THE ISSUE is one of individual rights and fair treatment," in the view of the Women's Equity Action League. But the insurance industry, in a study released jointly by six industry groups, says, "There is nothing unfair about a classification system that accurately reflects the expected costs of insuring the members of a class."

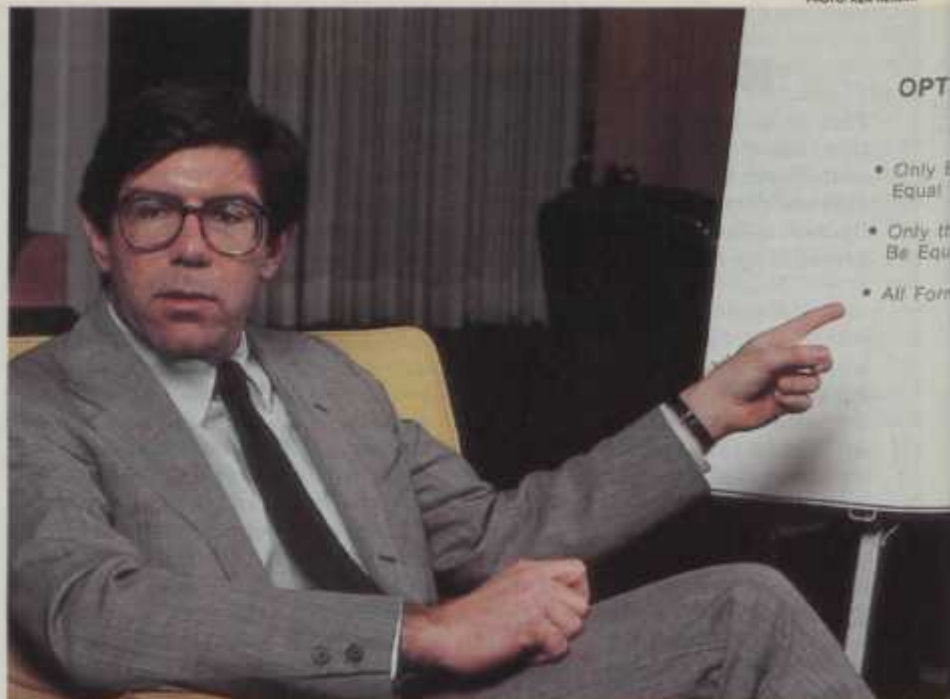
Those opposing views center on one of the most significant business issues in Washington today: Should the insurance industry be prohibited from using gender-based actuarial tables in determining rates and benefits?

One of the most critical aspects of the question deals with pensions, specifically those situations in which a woman receives a smaller monthly pension than a man on the assumption that she will live longer and benefits will be equal over the long run.

Legislation now pending in Congress would eliminate such sex distinctions, regardless of life expectancy as shown by actuarial tables. The estimated cost of implementing such legislation runs well into the billion-dollar-plus range. The actual amount would depend largely on whether the final legislation affected existing plans and on how benefit levels would be adjusted.

But the long-range impact could be felt in far more than higher pension costs. The pension legislation is part of a broader movement to eliminate the use of sex differences in all other types of insurance—life, auto, health and disability. That movement is, in turn, part of a still larger effort by women emphasizing economic issues of concern to themselves.

The pension issue, which is providing the legislative focal point, is particularly thorny because pension plans that employers offer are not—and legally



The President has delayed on a pension bill because the issue is so complex, says T. Timothy Ryan of the Labor Department.

If the U.S. Supreme Court rules in her favor, Arizona state worker Nathalie Norris (right) would not get less monthly than her male peers.

cannot be—discriminatory in themselves.

In 1978 the Supreme Court ruled, in the case of *Los Angeles vs. Manhart*, that the Civil Rights Act bars employers from requiring women to pay more than men into a pension plan if they wish to receive the same retirement benefits. Employers must treat their employees as individuals, the Court said, not as members of groups with predictable characteristics.

The current controversy has arisen over how employees choose to receive their pension benefits after they retire. This is where sex-based tables are used, and this is where it matters that women, as a group, live an average of nearly eight years longer than men.

Suppose that a man and a woman have identical work histories and retire at the same time; if they elect to receive their pension benefits in a lump sum, each will receive the same amount. But if the woman uses that lump sum to buy a life annuity, she will receive less each month than her male counterpart will if he buys the same policy, because she is expected to live longer.

On the other hand, if a woman elects



a joint survivor annuity option, she comes out ahead of her male co-workers. Women usually outlive their spouses, so not much money must be kept in reserve for a surviving husband. A married male worker receives less each month because money must be kept in reserve for his wife, who will probably survive him.

Now the Supreme Court is considering, in *Arizona vs. Norris*, whether such unequal outcomes are permissible.

The state of Arizona for which Nathalie Norris works, contributes the same amount for each employee to a pension fund. On retirement, an employee can choose among three options: take the money in a lump sum payment, have the money put into a fixed-term annuity

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or have the state buy an annuity that pays a monthly stipend as long as the retiree lives.

Norris selected the last option. The annuity is purchased through a private life insurance company, and the monthly amount is based on sex mortality tables. As a result, Norris will receive \$34 a month less than male retirees in otherwise identical positions.

ONE QUESTION facing the Court is: Should employers be held accountable for providing fringe benefits that pay more to males than to females, if the offering merely reflects what is available in the market? The state's lawyer, John Endicott, contends that the "employer is not responsible for the fact that the market treats women differently from men."

The case will probably be decided by late summer or early fall, and it will affect only employees of state and local governments and nonprofit institutions. But it has spurred members of Congress to introduce several bills aimed at eliminating sex as a classification not only in determining benefits under private pensions and annuities but also in computing premium rates for other kinds of insurance. (See page 28).

The chief sponsors of these bills are Sens. Robert Packwood (R-Ore.) and Mark Hatfield (R-Ore.), with the Fair Insurance Practices Act; Sen. David Durenberger (R-Minn.), with the Economic Equity Act; and Rep. John Dingell (D-Mich.), with the Nondiscrimination in Insurance Act. All these bills have broad support.

Women's groups are also supporting proposals that would acknowledge that women, as wives and mothers, make significant contributions toward a male employee's ability to earn wages.

A bill sponsored by Sen. Robert Dole (R-Kans.) would:

- Require written consent of both participant and spouse to waive the survivor annuity option. In 1978 more than 60 percent of married male retirees waived this option to avoid reductions in their own lifetime annuities; their wives would thus receive no annuities if the husbands died first.
- Make pensions a legitimate property right in divorce cases, with the courts empowered to split the proceeds between employee and spouse.
- Lower the minimum age from 25 to 21 for participation in pension plans.
- Require a 20-hour credit per week for up to one year of employer-approved maternity or paternity leave, provided the worker returned to the job.

President Reagan announced last January, in his State of the Union address, that he would submit legislation



Should only the benefits of future retirees like these be equalized? Or should present retirees be affected as well? And which benefits should be equalized?

to remedy inequities arising from sex discrimination in pensions. He has not yet done so.

Why the delay? Labor Department Solicitor T. Timothy Ryan says a strictly pension-oriented bill would be criticized on the ground that the administration was avoiding the insurance issue. But, Ryan says, the administration may offer a pension bill anyway, "because we can address pension inequalities competently, since Labor regulates pensions, and tell Congress that if it wants to go ahead with re-vamping other forms of insurance, we hope they know enough to make good sound policy decisions."

Ryan cites three major questions clouding the effort to establish pension equity:

- Whose benefits should be equalized, only future retirees' or present retirees' as well?
- Which benefits must be equalized? The benefits of current employees that have already accrued because of past service, or only benefits accruing in the future?
- How will the new benefit levels be set? Should payments be raised to the higher of the two existing levels or should the benefit level be set between the existing levels?

Nondiscrimination bills introduced so far have retrospective as well as prospective provisions; employers would thus be forced to raise payments to many people who have already retired, even though these added benefits were never funded.

The Department of Labor believes the cost of such retroactive payments would be \$1.2 billion to \$1.7 billion annually. The American Academy of Ac-

tuaries estimates the cost at \$2.5 billion.

Retrospective legislation is strongly opposed by the insurance industry and business in general. "Whatever change we have should be prospective, just as with Social Security," says Michael Romig, manager of the human resources and employer benefits section at the U.S. Chamber of Commerce.

Ryan agrees that a prospective plan would be the only fair one, since those employers funding pension plans "never thought they were purposely discriminating against women with options that use sex-based mortality tables."

BUT A PROSPECTIVE-ONLY BILL is, according to Judy Schub, director of public policy for the National Federation of Business and Professional Women, "not acceptable." She says "an awful lot of women are going to be retiring in the near future" and would be excluded from reaping pension rewards under a bill that affected only contracts written after the bill became law.

Romig warns that the Packwood-Hatfield and Dingell bills are "on fast tracks." To stall action somewhat, insurers and business groups are working to have the bills referred to more committees. "We need to have as much input as possible," Romig says, "with so much at stake."

But subcommittee markups have already been held, with full committee markups due soon on an issue that many observers say very few members of Congress are equipped to address.

Ryan's assessment: "The train is leaving the station, but no one knows who is on board." □



The prospect of higher auto and life insurance rates for women should not alarm them, says Judy Schub, since women's current advantage over men is "marginal."

Women's Groups Ask Sex-Neutral Insurance

WOMEN'S GROUPS condemn insurers' use of sex-based tables when setting rates in health, disability and auto insurance. "If insurance is supposed to spread risks over a participating population, the industry can certainly develop non-sex-based rates and payments to reflect the experience of the whole population," according to the National Federation of Business and Professional Women.

Use other variables, the women's groups are telling insurers, suggesting smoking, occupation, geographic location and accident records. These are better rating factors for assessing longevity, health and safety, they claim.

The insurance industry disagrees. "Sex of the insurance applicant is one of the most valid predictors of claim costs," a recent report asserts. Besides, it continues, insurers do use other rating factors beyond sex for auto insurance, including number of miles driven, the kind of car used, its age and whether it is driven to and from work.

"There are some fundamental differences between men and women, and to ignore them entirely when they deal with economics is to sort of ignore reality," notes Thomas O'Day, assistant vice president of the Alliance of American Insurers. For instance, male drivers have two to three times more fatal accidents than female drivers, says the American Insurance Association.

In the health and disability area, civil rights and women's organizations point to a 1976 North Carolina study that revealed women lose no more work time than men to "acute disabilities" and are less likely than men to be absent from work because of heart trouble, arthritis or rheumatism.

Despite these statistics, the study

found that a disability policy for five years with a 30-day elimination period "cost \$497 for men and \$763 for women—54 percent more."

Still, health insurers say sex cannot be eliminated as a rating factor, because female-generated medical and hospital costs can be as much as 150 percent of male-generated costs and female disability income costs are as much as 200 percent of males' costs in some age categories.

Sex-neutral treatment would also mean inflicting maternity coverage on males and single and older women, and that would be "ridiculous," says Jennifer Stockdale of the Health Insurance Association.

Insurers maintain that sex-neutral coverage would victimize the 36 million workers who rely on individual health insurance and the millions more who are members of small group plans. An under-30 single person, male or female, buying individual insurance would pay an extra \$250 without receiving any benefit.

Small businesses would also be hurt. Adding maternity coverage to a small group plan could cost as much as \$500 per employee per year. This could cause small businesses to give up health coverage altogether, and it could also create a new disincentive to employ and insure women, insurers warn.

Even though insurers claim women would have to pay 11 percent more at age 40 for life insurance and 37 percent more at age 20 for auto insurance, women's groups do not find this dis-

turbing. Judy Schub of the National Federation of Business and Professional Women contends that the advantage that women now enjoy in premium rates for life insurance is no more than "marginal."

As for a steep escalation in women's auto insurance rates, which insurers estimate could range from \$100 to \$600 per policy per year, Schub points to states that no longer permit gender-based tables and says that women's rates have increased minimally. "If a young woman is a bad driver, she should not be allowed the benefit of lower rates. If a young man is a good driver, he should not have the detriment of a bad rating based solely on his sex," she says.

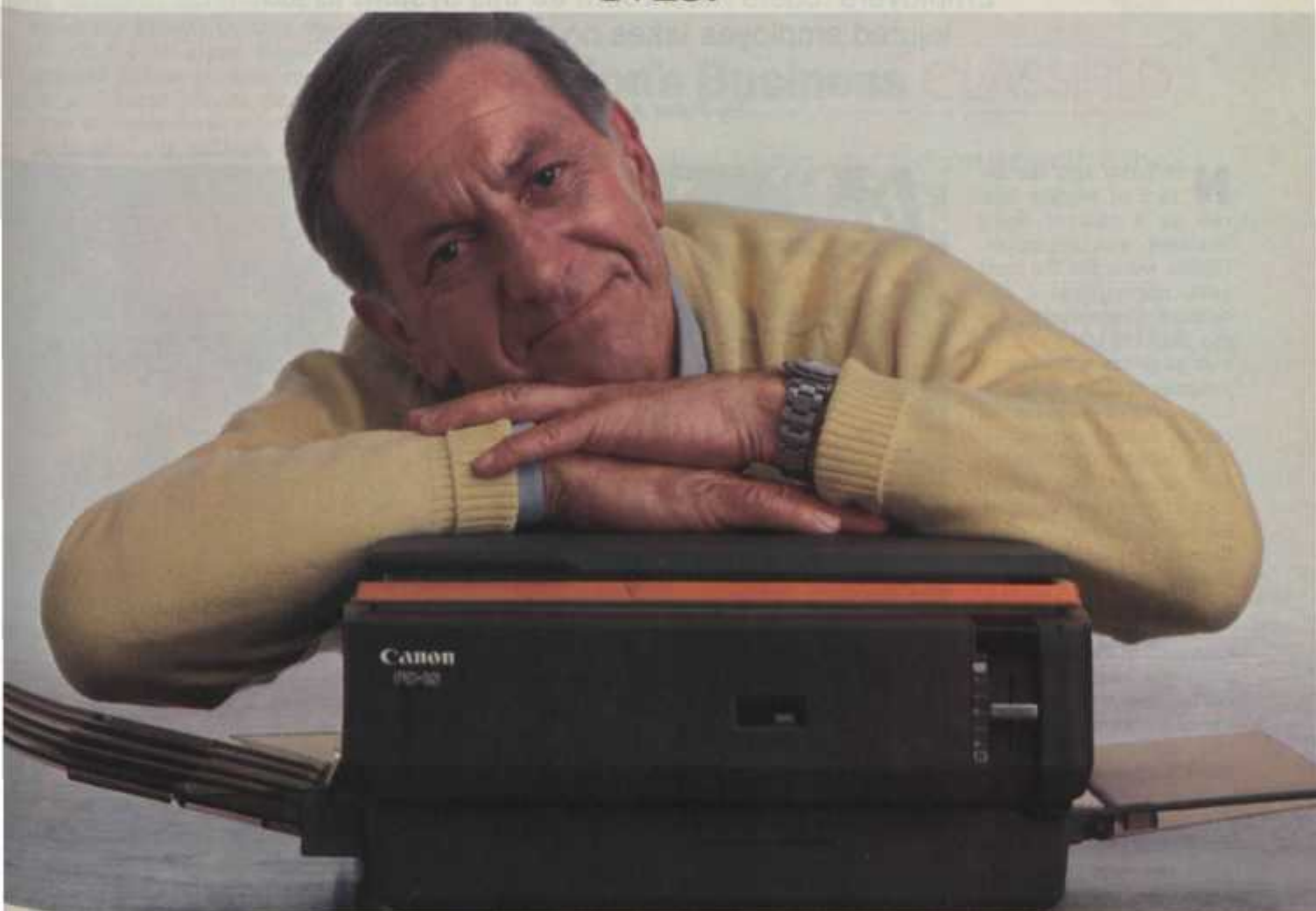
SOME INSURERS agree that sex should not continue as a rating factor. Robert Freeman, Jr., president of Consumer United Insurance Company, of Washington, says current insurance practices are "no different than racial discrimination." The industry should use one mortality table for the whole country and then make adjustments as needed, he recommends.

But the vast majority of insurers is not in favor of the nondiscrimination bills pending in Congress. The legislation could bring "severe market dislocation depending on the mix of insurance products that an individual company offers, the particular state the company is in, how competitive the market is and how the regulatory environment stacks up," says O'Day of the Alliance of American Insurers.

Most insurance industry groups argue that Congress should legislate for pension equity and stay away from insurance, which is state-regulated. □

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The Workers' Compensation Mess

Employers' costs mushroom as this system to aid injured employees takes on new dimensions.

By Peter A. Magowan

NOT LONG AGO the impact of worker injuries as a cost of doing business was negligible. Claims were, for the most part, uncomplicated and relatively inexpensive. Today they are often so complex as to tax a Solomon's judgment. And they account for a substantial cost of doing business.

In the past dozen years, for example, the annual cost of workers' compensation claims for Safeway Stores, Inc., in the United States has skyrocketed 430 percent. This far outstrips Safeway's 40 percent gain in the number of employees—and its 25 percent increase in the number of workers' compensation claims—during the same period.

Few will argue about the desirability of having a system that eliminates needless litigation and benefits those injured while making our economy work. But why the tremendous increase in costs? Let's look at some of the reasons.

First, costs of everything the comp system pays for have exploded. Health care costs have been climbing at more than twice the inflation rate. About one third of compensation goes for medical benefits.

In addition, cash benefits have risen dramatically, reaching nearly \$10 billion in 1980. One reason for the explosion in cash benefits is that 41 states and the District of Columbia provide for annual automatic adjustment of maximum weekly benefits based on the state average weekly wage.

PETER A. MAGOWAN is chairman and chief executive officer of Safeway Stores, Inc.



Standard workers' compensation plans are run by the states. Federalization has been suggested, but costs of federally run programs have gone out of sight. The Longshoremen's Act and the Black Lung Benefits Act for coal miners provide examples of huge increases in employer payments.



There is an obvious need to raise benefits to keep pace with inflation. But few realize the tremendous amounts that can be involved.

Take a hypothetical example of a federal government worker who is killed on the job and whose 42-year-old widow is eligible for Federal Employees' Compensation Act benefits. Let's assume that the worker's salary qualifies his survivor or survivors for the maximum weekly benefit—\$910 in 1983—and that the wife does not remarry and lives another 35 years. Let's further assume a 7 percent inflation rate. At the end of

35 years she would be getting annual payments of over \$500,000. Her total benefits at that time would have come to almost \$6.5 million.

Another pressure forcing costs up is "social inflation," a reflection of society's changing attitudes about right and wrong, about what one is entitled to and about what justifies a lawsuit. There has been a continuous arbitrary redefinition of the workers' compensation system to provide broader benefits for more people.

A state trooper in Maine who was on call 24 hours a day became severely

depressed. He claimed his sex life had deteriorated because he never knew when the phone would ring. The Maine Supreme Court approved the officer's claim for permanent total disability. (The attorney general asked the court to reconsider and then settled out of court for \$5,000.) Or take the case in which the Michigan Supreme Court granted lifetime workers' compensation to a General Motors parts inspector who was considered a "compulsive perfectionist." He suffered mental strain when assembly line workers persisted in installing parts he had labeled defective.

Finally, consider the case in which an employee at a workplace Christmas party spiked the punch without his employer's knowledge and then enjoyed the fruits of his labor. On the way home he was involved in an accident that resulted in assorted injuries. In California, where this occurred, intoxication is a bar to recovery of workers' compensation. Nevertheless, it was ruled the accident had occurred in the course and scope of his employment and was therefore compensable.

TODAY'S society expects and demands more from the workers' compensation system. There has been a radical departure from the original no-fault concept introduced some 70 years ago. The avowed intent of providing fair and prompt replacement of economic loss to the employee without having to resort to the courts is gradually eroding.

Cumulative injury and disability from job-related stress are gaining widespread acceptance as being compensable. A 1978 study by the California Workers' Compensation Institute showed that in California, 7 out of 10 cumulative injury claims involved back injuries, heart and vascular conditions or loss of hearing. These three causes, all closely related to the normal aging process, accounted for more than 8 out of 10 cumulative injury benefit dollars. One out of five claimants was already retired.

To some degree, it appears, the comp system is being forced to pay not only for the results of normal aging but also for supplemental retirement benefits. Both are being inflated by legal expenses that the early framers of workers' comp laws sought to avoid.

Occupational disease is fast becoming a major contributing factor to the workers' compensation cost problem. It is only fair for employers to compensate an employee who becomes disabled because of health hazards on the job. But the system is being called on to pick up the tab for health problems only

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PHOTO: GEORGE ELSON



remotely related to occupation. If the trend continues, an entirely new cost dimension will be added to an already overburdened system.

The real challenge is to distinguish diseases that are work-related from those that are not. This is not easy. There is widespread disagreement even among experts—doctors and scientists—as to which disabilities are work-related. Unfortunately, some states are ignoring the problem rather than trying to solve it; considering everything compensable is much easier.

Rehabilitation is another contributing factor. It is fast gaining acceptance as part of an employer's moral, if not legal, responsibility. California, Michigan, Georgia, Oregon, Washington, Florida, Minnesota and Ohio are states with particularly active rehabilitation programs.

If the injured employee cannot return to his or her former position, employers may be required to retrain the individual in another occupation. During the retraining period, the employer is generally obligated to make temporary disability payments to the worker plus payments for tuition, training, tools, books, professional counseling services and whatever additional living expenses arise from the rehabilitation program.

A study shows that at the end of 1980 the California Rehabilitation Bureau

had over 22,000 active vocational rehabilitation claims on file. In cases where claims were approved, the average cost was almost \$7,000. Current costs undoubtedly are much higher.

Erosion of the "exclusive remedy doctrine" limiting employer liability for job-related disability is also a major problem. Courts in California, Ohio and West Virginia have allowed suits against employers in disability cases despite clear statutory provisions making employers liable only for workers' compensation payments. Courts in a few other states have allowed similar suits under more limited circumstances. Such decisions could open floodgates of litigation. They raise the possibility of doubled work injury costs for California employers, who, at \$3.18 per \$100 of payroll, are already paying 25 percent more than the average U.S. employer (\$2.55).

Federalization of the workers' compensation system, through either passage of a minimum standards law or a direct takeover, has been suggested, but it is not the answer to these problems. Such moves could do far more harm than good.

The U.S. Chamber of Commerce cites these typical examples of problems that have been experienced in federally run programs:

- Longshoremen's and Harbor Workers' Compensation Act. After it

was amended in 1972, this was called the "model act" for workers' compensation. In reality, however, it has proven to be a model only for how good intentions can lead to disaster. For example, the shipbuilding industry estimates that the cost to each employer under the act rose 1,000 percent on average from 1970 to 1980—compared with average wage increases of 124 percent over the same period. Workers' compensation costs under the act are increasing six times faster than payroll costs. The high level of benefits has made it virtually impossible for an employer to get insurance coverage. And a partially disabled employee with a permanent disability can receive benefits for life—even when in jail or on strike, and even if earnings are unaffected by the disability.

- Federal Employees' Compensation Act. Federal workers are covered by this law—and their injuries and illnesses have skyrocketed in recent years. Costs under FECA were \$880 million last year, and General Accounting Office auditors predict that figure will soon reach \$1 billion. Some employees can actually receive more in workers' compensation payments than their previous pay—as much as \$900 more per month—and this encourages fraudulent claims.

- Social Security. Benefit expenditures for permanent total disability

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zoomed from \$1.6 billion in 1965 to \$17.2 billion in 1981, as reported by the Social Security Administration. Ironically, the number of awards to disabled workers is actually declining. Social Security disability payments are a powerful disincentive to return to work and frequently reach 100 percent or more of take-home pay.

• District of Columbia. Until it adopted its own law effective last year, Washington was governed by the Longshoremen's Act. Costs soared. An employer who paid \$100 in premiums in 1972 paid more than \$1,000 in 1980. Moreover, many employers could obtain insurance only through the assigned risk pool because the insurance carriers could not write this insurance at a profit.

• Black Lung Benefits Act. Enacted as a temporary program expected to cost \$40 million to \$60 million the first year and then taper off, the act has become a permanent program costing over \$1 billion a year. No state has been willing to assume administration of the black lung program because of the cost and the arbitrary eligibility requirements.

Lawmakers and administrative agencies must be made to understand the fundamental purposes and limitations of workers' compensation. Its purpose is not to provide welfare or retirement benefits or to serve as general health insurance. Its one basic objective should be to get injured workers healed and back into the productive mainstream as quickly as possible. □

How "Wage-Loss" Programs Can Benefit Employer and Employee

Workers' compensation insurance rates in Louisiana will drop a guaranteed 20 percent on August 1 as a new "wage-loss" benefits program goes into effect.

Louisiana's plan, which addresses permanent partial disability claims, is patterned after a pioneer system adopted by Florida in 1979. Florida's wage-loss program has cut insurance rates 54 percent and reduced the number of claims 68 percent while raising maximum weekly benefits from \$130 to \$271.

Similar plans may be considered this year by legislatures in New Mexico, Alaska, Delaware and Washington.

The wage-loss system's major feature is its return to the original intention of workers' compensation laws: to compensate injured workers to the extent that their disabilities reduce their earnings. Under the system, if a disabled worker cannot resume his job and must take one paying lower wages, benefits are based on the difference between the old and new wages.

Most states currently use an arbitrary formula to provide lump-sum benefits without taking into account the worker's actual loss in earnings. Lump-sum payments, which account for more than half of benefit costs in many states, are blamed for skyrocketing insurance costs.

In addition to cutting costs, wage-loss is credited with reducing unnecessary litigation in Florida and pro-

viding greater incentive for workers to return to work.

The system requires a worker to show he has lost income because of his injuries rather than prove how extensive the injuries are. This eliminates quarreling over such vague terms as "30 percent disabled" or "60 percent disabled." The worker is encouraged to return to work as soon as possible to determine his new earning power.

Eric J. Oxfeld, staff attorney for the U.S. Chamber of Commerce, says there is growing interest in wage-loss among business groups, but he cautions that the idea is not without its limitations.

"We have some reservations over the effectiveness of wage-loss in industrial states," he explains. "Unless there are careful controls, employers may be forced to pay benefits over a long period of time for reasons other than the disability of the worker."

Poor economic conditions, not the disability itself, may keep a worker from finding a new job. Yet such a cause would be difficult to prove in court, and in many cases the former employer would probably be ordered to continue paying disability benefits.

Nevertheless, with wage-loss producing dramatic results in Florida and with Louisiana now trying it as well, a new trend in workers' compensation legislation may be in the making.



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War of the Words

What is unfairness to consumers?
What is deception? Congress may
define the terms for the FTC.

By Bob Gatty

A COMMERCIAL interrupted the football game on television. It showed a woman taking Geritol and her husband saying affectionately, "My wife—I think I'll keep her."

At work the next day, the second-ranking official in the Federal Trade Commission's bureau of consumer protection, who had seen the Geritol commercial, suggested that the FTC should try to stop it. Why? Because, he contended, Geritol could not prove that use of its product would lead to marital bliss.

That suggestion was made before Ronald Reagan became President and named James C. Miller III to be FTC chairman.

Timothy J. Muris, who has just completed a stint as director of the bureau of consumer protection, cites the Geritol incident as an example of the kind of thinking that once resulted in pointless FTC investigations.

The idea of taking action against Geritol went nowhere, but the FTC did try to ban television advertising directed at children in the so-called kidvid proceeding. The agency abandoned that effort after Congress passed the FTC Improvements Act of 1980, which imposed many new restrictions on the FTC's powers and required it to drop the kidvid proceeding.

Miller wants to reduce the danger that the FTC will again embark on such questionable undertakings. Two words—deception and unfairness—have been focal points at the FTC since he arrived in October, 1981. He has asked Congress to limit the FTC's discretion by placing in the law definitions of both terms as they pertain to the agency's jurisdiction over business practices.

Miller thinks a deception case should be brought only when consumers, exercising reasonable intelligence, have deliberately been tricked into believing that a product will perform in a way that it does not.

Only one of the four other commission members, George W. Douglas—the sole Reagan appointee besides Miller—agrees that the law should specify what deception means. A majority of the commission has agreed, however, that a definition of unfairness should be written into the law.

"There is little established case precedent defining the contours of unfairness," says Commissioner David A. Clanton. "Thus there is a clear justification for providing statutory guidance." Critics of the FTC have contended that the term unfairness is so broad that, without legislative definition, the door is open to abuse.

"Unfairness," Miller says, "should legislatively be limited to acts or prac-

tices likely to cause substantial injury that consumers cannot reasonably avoid, without providing offsetting benefits to consumers and competition."

As an example of eliminating unfairness, he cites FTC rules requiring manufacturers to give certain information that helps consumers choose between products. (For a report on the FTC's consumer protection efforts, see page 38.)

Although the House last year voted to include a definition of unfairness similar to Miller's in legislation authorizing the FTC to function through 1985, the bill became bogged down and eventually died because of controversy over whether professional groups, including physicians, dentists and optometrists, should be exempt from FTC jurisdiction. The agency is operating under temporary authority that expires September 30.

Muris, who is now head of the FTC's bureau of competition, is confident that a definition of unfairness will be included when an authorization bill is finally passed, and he is hopeful that the bill will also contain specific language restricting the agency's authority to bring cases alleging deception.

"It's a question of how much discretion unelected bureaucrats are going to have in the name of protecting the consumer," Muris says. "That discretion is now extremely wide."

There is no immediate threat of that discretion's being abused, Muris acknowledges, because Miller is chairman. "But anyone who believes the threat has gone permanently is being shortsighted," he says. "The legal definition of deception ought to be specific, and it should not change with the commission's whims."

MILLER TOLD the Senate Commerce, Science and Transportation Committee at March hearings that "the present law gives virtually unlimited discretion to the commission to declare an act or practice deceptive. This unguided discretion creates great ambiguity about how the law will be applied."

Commissioner Michael Pertschuk strongly disagrees. He preceded Miller as chairman, during the Carter administration, and spearheaded many of the

cases that prompted Congress to restrict the agency's power.

"No definition, even a clear one, would stop the commission from bringing silly cases," he says, pointing out that only three commission members' votes are needed for the commission to bring a deception case.

Pertschuk argues that Miller's definition, if placed in the law, could prevent the FTC from "winning good and important cases," but he backs Miller's view that the agency should concentrate on cases where consumer injury is greatest.

THERE IS a "wide gulf between an agency's use of case selection criteria that say to our staff, 'Don't spend time investigating false claims for products and services in trivial cases,' and Congress' changing the law to make some false claims legal," Pertschuk told the Senate committee. Restrictions on what constitutes deception could have that effect, he warned.

Sen. Bob Packwood (R-Ore.), chairman of the Commerce Committee, does not agree with Miller's attempt to limit the FTC's authority to attack deception. He declared at the hearings that he is "less than enthusiastic about full deregulation" in cases "where the bargaining power of the parties involved is not equal."

Rep. James J. Florio (D-N.J.), chairman of the House Energy and Commerce subcommittee that has jurisdiction over the FTC, says further restrictions are unnecessary because the 1980 FTC Improvements Act "effectively gutted the ability of the FTC to be a rogue agency."

The meaning of deception is perfectly obvious, Florio says. He sees "potential for mischief in trying to clarify something that is not unclear."

Pertschuk agrees. "Ask a small businessman," Pertschuk says. "He'll tell you deception means, 'Don't lie and don't mislead.'"

Muris says that supporters of placing legal limits on the FTC's challenges of deception and unfairness were stymied last year as a result of the professional associations' drive for exemption from the FTC's jurisdiction.

The professional associations, which
NATION'S BUSINESS • JUNE 1983



PHOTO: GARY KIEFFER



PHOTO: RICK BLOOM

Should the FTC's powers over advertising in the various media be limited? That question is tangled in a fight over the agency's regulation of professions like medicine.

"Although that proposed rule was a political disaster for the agency," says Commissioner Patricia P. Bailey, "it is not a justification for a special interest exemption for all commercial advertising from a fairness standard."

Proponents of an exemption for advertising argue that the FTC could still attack objectionable advertising under its authority to investigate allegedly deceptive trade practices.

Lawrence R. Fullerton, counsel to the Consumer Subcommittee of the Senate Commerce Committee, notes that Packwood is strongly opposed to the advertisers' proposal. Congressman Florio says he, too, is opposed.

Agricultural cooperatives also are seeking a modified exemption from the FTC's jurisdiction. Muris is concerned that a dispute over that request could hang up the agency's authorization bill in Congress. Other controversies involve proposals to:

- Place a ceiling on penalties a court can impose on a company for violating an FTC rule or order.

- Give Congress permanent veto power over FTC rules. The FTC Improvements Act gave Congress such power on a temporary basis.

- Make permanent a ban imposed in the 1980 Act on using federal funds to pay consumers or owners of small businesses who participate in FTC rule-making proceedings. Opponents contended that tax dollars were used to selectively finance "public witnesses" who agreed with the FTC's position on issues in question.

- Fund the agency for the 1984 fiscal year, which starts October 1. Miller asked Congress for \$59.5 million, down from \$64.9 million in the 1983 appropriation. The lower figure would be sufficient, he told Congress, "provided we are granted flexibility to manage the agency's resources in the most cost-efficient manner."

ISSUES AT STAKE in the debate over the FTC are complex. What is unfair? What is deceptive? Who should be exempt from the FTC's jurisdiction? Who should not?

Clearly, however, the debate is important to nearly every business. How those questions are answered will decide what the rules of the marketplace will be in years ahead.

And, according to Muris, time is running out. The 1984 elections are just over the horizon, he notes, and there is nothing to guarantee that the people in charge of the FTC today will be there after those returns are in. □

already are regulated by the states, say FTC regulation would impair the quality of medical care.

"We spent all last year fighting them and lost our chance to achieve some positive goals," Muris says. He hopes for a compromise this year that would limit FTC regulation of the professions when state regulation is adequate.

In a related controversy, advertisers are asking Congress to exempt them from the FTC's jurisdiction over unfair practices, a move sparked by the agency's unsuccessful effort to ban television commercials aimed at children.



Under James C. Miller, the FTC is bearing down on fraud, breach of contract and deceptive advertising.

A NEW APPROACH to dealing with consumer concerns has been implemented at the Federal Trade Commission under James C. Miller III, a conservative and the first economist to head the agency.

Miller seeks to focus the FTC's efforts on those problems that affect the most consumers and to make sure that FTC actions are based on fact and make economic sense.

Timothy J. Muris, until recently director of the FTC's bureau of consumer protection, says the agency is now doing a more effective job of helping consumers than it did under previous administrations, though with less public attention.

"Our predecessors promised much but often delivered little," says Muris, who has been reassigned by Miller to lead the FTC's antitrust enforcement efforts as head of its bureau of competition. Carol Crawford, who was Miller's executive assistant, now heads the bureau of consumer protection.

The key, according to Muris, is applying economic data.

"If we do not carefully consider why a practice exists, we cannot decide whether it should be changed or what changes are necessary," he contends. "Economic analysis provides a systematic framework for addressing these issues."

There are laws that govern the business-consumer relationship, and the FTC's job is to enforce them, says Muris. Firms must live up to their contracts and avoid fraud and deception. "Consumers lose when business breaks these rules," says Muris. "Government enforcement of these rules protects consumers."

The agency under Miller is therefore concentrating on fraud, deceptive ad-

A New Approach To Consumer Protection

The FTC says it is doing a quiet but effective job.

vertising, breach of contract, enforcement of sound rules and removal of unnecessary public or private restraints on the marketplace.

Not much attention has been paid to the FTC's consumer efforts, but from Oct. 5, 1981, when Miller took over as chairman, through March 11, 1983, the agency had:

- Initiated 284 investigations.
- Approved 27 consent orders in which a company agreed to stop a practice the FTC found objectionable.
- Issued 12 formal complaints.
- Obtained 17 civil penalty judgments.
- Sought three injunctions.

Moreover, the agency took action on 12 of 17 pending rule-making proceedings. In one of the most controversial of those proceedings, the FTC approved a rule requiring used-car dealers to post a notice disclosing a vehicle's known defects. Congress vetoed that rule, and the FTC is now considering a revised version.

Muris says the agency is moving systematically to attack fraudulent practices. In one case, the agency acted against a firm that sells diamonds as investments. A federal court ordered the firm not to misrepresent the risks of investing in diamonds. The FTC is currently in court seeking refunds for investors it says were defrauded.

Last December the FTC charged a company with falsely claiming that it could virtually assure consumers of obtaining highly valuable and easily marketable oil and gas leases under a lottery procedure, when, in fact, fewer than 1 percent of the firm's customers actually acquired them.

The agency took the company to court. On April 7, the FTC announced



The FTC, says Timothy J. Muris, is doing more now to help consumers, with the aid of economic analysis.

that company officials, under a court order, have paid \$125,000 into a fund to reimburse consumers who were promised leases but never received them. The court order also prohibits the firm from future misrepresentations.

"Attacking fraud reinforces one of the most basic principles of the law: Fraud will not be tolerated," says Muris. "Our cases provide real protection for consumers and are fully consistent with a sound economic approach to consumer protection."

IN MOVING against deceptive advertising, the FTC recently accepted a consent agreement with a manufacturer of chain saws and its advertising agency. The FTC charged that the firm had claimed that its chain saw was rated best by a leading consumer publication, although the rating was three years old when the claim was first made and the company's competitors had made significant changes in their products. The FTC has also moved against companies making false claims about energy savings.

In addition, the FTC has acted to prevent discrimination against elderly individuals when they seek credit, to protect consumers who have complained that companies backed out on specific warranties for their products and to tighten requirements applicable to mail order companies.

"Consumer protection is an important function of government," says Muris, adding that good intentions are not enough.

"By uniformly relying on careful economic analysis to guide our actions," he says, "we have found the necessary tool to ensure that we provide as much protection for consumers as possible." □

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AMERICA is about to see a sweeping change in health care financing: Services to a third of all hospital patients are to be brought under tight federal price ceilings.

The ceilings apply to everyone who receives hospital treatment under Medicare, the Social Security program of health services to the elderly and certain disabled persons. Medicare payments account for 40 percent of all hospital revenues.

Since Medicare's enactment 15 years ago, hospitals have billed the federal government on the basis of their own fee schedules. Under a system to be phased in over three years beginning October 1, all hospitals will be paid the same amount for the same service to a Medicare patient.

Business, which spends \$80 billion a year buying health insurance, is taking a cautious view of the change. On one hand, it applauds efforts to contain a cost surge that could lead to sharply higher payroll taxes. On the other hand, it is concerned that the new approach will intensify the shifting of costs to private patients or their insurance companies by increasing charges to them to offset losses on other patients.

The health insurance industry says the bill for cost shifting was \$5.8 billion in 1982 and will reach nearly \$8 billion this year. With the first phase of the new Medicare price ceilings in effect, cost shifting next year could reach \$10 billion, the industry estimates.

That could mean higher premiums or reduced benefits—or a combination of both—for private health insurance programs.

Jan Peter Ozga, manager of health care issues for the U.S. Chamber of Commerce, reflects the business outlook: "We're certainly in favor of anything that saves money for Medicare, as long as it doesn't shift costs onto the private sector." Although the new Medicare plan has some merit, he adds, "it appears that costs will continue to be shifted."

The prospect that any savings in taxes through the Medicare price-control plan will be offset by higher employer costs for health insurance as a result of cost shifting spotlights a major concern of business over current approaches to health cost problems.

A number of plans being implemented or considered, business experts say,

Price Ceilings That Could Raise Employers' Costs

How will new federal limits on Medicare charges affect rates for health insurance?

By Ellen Hale



The Social Security bill signed by President Reagan in April radically changes Medicare payments. The President is pressing other health care cost proposals.

do not really deal with the underlying challenge of finding ways to curb escalating medical costs but simply transfer responsibility for dealing with that escalation.

Tax increase legislation passed last year, for example, restricted sharply the amount of medical expenses that can be deducted for federal income tax purposes. It eliminated the automatic deduction of up to \$150 for health insurance premiums and stipulated that only medical expenses above 5 percent of adjusted gross income can be deducted. The level has been 3 percent.

Another part of the same law requires employers to offer workers who are 65 or older a choice of whether their primary health insurance is furnished through the company plan or Medicare. At present Medicare is considered primary coverage for such workers.

Following up on those initiatives, the

administration is now backing a package of health care proposals that calls for making taxable to an employee some of the health insurance premiums paid by an employer. Annual contributions above \$840 per individual or \$2,100 per family plan would be taxable under an administration proposal expected to raise \$2.3 billion in new revenues for the federal Treasury.

CURTAILING TAX ADVANTAGES of health insurance beyond certain levels is designed to make insured individuals more cost-conscious and, theoretically, intensify pressures for economies in health care.

In proposing changes in the government's approach to health care costs, President Reagan said the present system has "a constant bias in favor of service upgrading and cost expansion."

He explained, "The central difficulty



Hospitals' charges vary widely—from \$1,500 to \$9,000 for treating a heart attack victim, from \$450 to \$2,800 for removing a cataract—but now Medicare payments will be uniform.



is that extensive third-party coverage on a cost-plus basis isolates all participants in the market for medical care from the cost consequences of their decisions."

The plan to make health insurance premiums taxable to workers has run into strong opposition, however, from a coalition of business organizations, individual companies, labor unions and the insurance industry. The group argues, among other points, that the proposal could be counterproductive.

"As employers scramble to reduce their overall premium rates, essential preventive care services, such as health maintenance organizations and dental and vision care, and other features... may be dropped from benefit plans," the group says. "Dropping those benefits does nothing to reduce hospital costs and may have the opposite effect."

Ozga sees a direct link between the Medicare plan and the tax proposal: "As Medicare ceilings shift more costs to privately insured patients, private sector insurance premiums will be forced upward, bringing them into the taxable range set by the federal government."

Health insurance officials also see the cost shifting problem as intensifying to a point where private insurance companies will seek protection through their own version of a fee schedule that would prevent hospitals from transferring costs from Medicare to private patients.

Louis Orsini, executive vice president of the Health Insurance Association of America, estimates that cost shifting could double employer bills for hospital insurance every two years if Medicare is under price restraints and private health plans are not.

The Medicare rate ceiling plan is therefore of interest to business as a harbinger of what could happen in health insurance generally.

UNDER THE PRESENT Medicare system, hospitals are paid on a cost-plus basis for whatever care they deliver; the more tests and similar procedures, the more money they receive. It is a retrospective payment system.

The new method is called a prospective payment system. Flat rates will be set for each of 467 different diagnostic groups, ranging from treatment for skin ulcers to coronary bypass operations. If a hospital cannot treat the patient at the assigned rate, it must swallow the difference. If it can treat a patient for less, it pockets the difference; thus, in theory, it is given incentive to provide care as efficiently and economically as possible. The system is patterned after one enacted in New Jersey a few years ago that covers both public and private health insurance payments. Another 16 states also use some form of prospective payment as a means of containing hospital costs. Half a dozen more are considering similar programs.

Rates for each diagnostic group will be adjusted on the basis of region, urban or rural setting and local level of wages. Exceptions are children's and psychiatric hospitals, and facilities with fewer than 100 beds, which will continue under the retrospective payment system. The rates make special allowances for teaching hospitals and for a certain number of long-term patients who require chronic care. Dr. Robert Rubin, assistant secretary of Health and Human Services, says the plan will increase competition by encouraging hospitals to concentrate on techniques they do best and to turn over specialized work to other facilities.

Organizations representing health care suppliers and insurers differ on the extent to which the prospective payment approach should be applied. Some believe it should affect only Medicare patients, which would allow continuation of cost shifting. Others would apply it to all hospital patients, eliminating opportunities for cost shifting.

The largest, broadest-based business organization, the U.S. Chamber, proposes that states be allowed to set their own policies on prospective payment.

As the debate over prospective payment continues, the administration is urging Congress to adopt other proposals that call for:

- Increasing the share of bills borne by Medicare patients so that short-term patients would pay more but have unlimited hospital coverage in case of catastrophic illness. The administration claims this could save \$663 million in 1984. Currently, Medicare picks up the full bill, minus a \$350 deductible, for a hospital stay of up to 60 days, and a portion of the cost after that.

- Enact a voucher system whereby Medicare patients would be given a limited amount of credit to buy private insurance plans.

Each proposal shares a goal with the prospective payment system. That goal: to raise the level of cost-consciousness in the practice of medicine.

In addition, the administration is considering whether to recommend use of the diagnostic-group method to set ceilings on fees of physicians treating Medicare patients. Some doctors are already arguing that use of the concept in hospitals restricts them in their practice of medicine. □

ELLEN HALE is the medical and health correspondent for Gannett News Service.

Hershey's "New" Ingredient

A Kiss is still a Kiss, but under Bill Dearden, it's not still the same old Hershey. Now the company advertises.

By Henry Altman

HOW SWEET IT IS for William E.C. Dearden. He loves his job, his company and its products. He loves the place where he lives and works. Above all, perhaps, he loves his company's biggest stockholder—a school.

Bill Dearden is chief executive officer of that maker of mouth-watering goodies, Hershey Foods Corporation, headquartered in Hershey, Pa., a community designed for the good life.

Most of the millions who consume the company's chocolate bars and other products are not aware that a philanthropic institution is the principal beneficiary of the profits. Some of the company's 16,000 stockholders may not know, either. A single laconic line on page 29 of the latest Hershey Foods annual report reveals that the Milton



Hershey School owns 50.1 percent of the stock.

The school was founded by the man who created the company and for whom the Lebanon Valley hamlet of Derry Church, growing as the company grew there, was renamed in 1906, Milton S. Hershey wanted to give boys who had lost one or both parents—and needed financial support—a wholesome setting for living and learning.

Bill Dearden, now 60, was one of those youngsters. His mother died in 1935, and his father, an out-of-work

Philadelphia factory hand, got him into the school.

"My mother's death obviously was a tragedy," Dearden says, "but it turned out to be a blessing in disguise for my career. That was during the Depression, and I might never have finished high school because there was always pressure to go out and earn extra money for the family."

As it was, he got a fine education that included heavy doses of discipline and the work ethic and led to Albright College in 1941 on a basketball-football scholarship. (Dearden is a well-built 6 feet 5 inches.) Twelve years later, remembered favorably at the Hershey school, he was invited back to serve as its assistant business manager.

An institutional job was not in his thoughts at the time. Dearden, who had received training at Harvard's graduate school of business as a Navy mid-

CEO William Dearden joins students at the school where he, too, benefited from Milton S. Hershey's generosity.



PHOTOS: RHODA BAEF

shipman in World War II and had served as a supply officer in the South Pacific, had been called back during the Korean War for Navy duty at a supply depot in Mechanicsburg, Pa. But he had a promising career awaiting him—he had been manager of Dun & Bradstreet Corporation's Trenton, N.J., office before his Navy recall, and that business information firm had offered him a bigger job.

No matter. "I had always wanted to repay the debt I felt I owed the school for what it had done for me," he says. "So I was delighted to come back."

The thought that there might be opportunity for him elsewhere in Hershey, Pa., also crossed his mind. However, "it went far beyond my dreams that I could come to my present level."

He reached that level in five steps. His performance at the school, after his return, led to an invitation to join the Hershey company as assistant to the board chairman. Then: products manager, 1961; director of sales and marketing, 1965; vice president-sales and marketing, 1967; group vice president-chocolate and confectionery division, 1971; vice chairman and CEO, 1976.

John O. Hershey (no relation to the Hershey) was head of the Milton Hershey School when Dearden came back to it, and the two men have been close ever since. John Hershey, who is now retired, offers clues to Dearden's success: "He wasn't here any length of time when everybody wanted him. He had all the moves of a leader. He was a take-charge kind of guy—a planner, highly organized. Bill looks ahead and sets goals—everything has to be out there so you can see where you're going. He gets a lot of people involved. He's always asking, 'What do you think?'"

ALSO, John Hershey says, Dearden "is a fantastic salesman. He can sell anything."

Evidence that Dearden is dedicated to salesmanship comes from Larry Johns, a Hershey Foods sales executive: "He's probably the only CEO of a major company who goes to trade group conventions and stands on the exhibition floor from the moment his company's exhibit opens until it closes. He'll be on his feet for hours, for three or four days. He's always willing to talk to a potential customer."

As for Dearden's dedication to planning, listen to the man himself: "When I became CEO, I made my No. 1 objective strategic planning—deciding where we were, where we wanted to be, how we were going to get there. I said

that by July 1—in four months—we would have a plan for the company, and we would present it to the board of directors at their meeting July 27.

"For maybe 18 full days from March to July, the top eight or nine people in this company sat down and wrestled with what it should be. We met our target dates, and when we presented the plan to the board, it was accepted."

What was the plan? "We wanted to be a major, diversified, international food and food-related company. We wanted the diversification to be inside our original business, chocolate and confectionery, and we wanted it to be outside that business, too."

The company had begun diversifying in 1963 with its purchase of the H.B. Reese Company, a producer of peanut butter candies (and, incidentally, located in Hershey, Pa.). Under Harold S. Mohler, who was CEO from 1965 to 1976 and today serves as Hershey Foods chairman, there were more acquisitions: San Giorgio Macaroni, of Lebanon, Pa.; another pasta maker, Delmonico Foods, of Louisville, Ky.; and Cory Food Services, a Chicago-based purveyor to offices of coffee and allied products.

After adoption of Dearden's plan, there was a flurry of new acquisitions.

One broadened the Hershey candy line: Y&S Candies, a maker of licorice products with plants in Pennsylvania, Illinois and New Mexico.

Two strengthened the Hershey position in pasta: Procino-Rossi Corporation, of Syracuse, N.Y., and Skinner Macaroni Company, of Omaha, Nebr. Hershey Foods has become one of the country's leading pasta producers.

A fourth acquisition—Friendly Ice Cream Corporation, of Wilbraham, Mass.—brought Dearden's company into another type of food business in a big way. Friendly has more than 640 standardized-menu restaurants, mostly in the Northeast and Midwest.

Internationally, Hershey has taken joint venture and licensing approaches (though not in Canada, where a full-fledged Hershey company has operated since the 1950s). There are now arrangements in Mexico, Brazil, Sweden, Britain, the Philippines and Japan.

HERSHEY's original business, chocolate and confectionery products, is still by far the biggest contributor to its sales, accounting for 69 percent of the \$1.5 billion-plus racked up last year.

Ever since Milton Hershey began making chocolate bars, cocoa and baking chocolate at the turn of the century, the company has sought profitable additions to the product line. The Hershey Kiss, for example, dates from 1907. Mr. Goodbar from 1925, Hershey's instant cocoa mix from 1956. Dearden expand-

At a spotless, highly mechanized plant, humans inspect Kisses for flaws in shape or wrapping.



ed product-development research—a research center was built. So far, the company has not gotten into the high-price, status-symbol chocolate field. But Hershey in recent years has introduced the New Trail granola bar, the chocolate-coated-peanut Watchamacallit and, of course, the nonchocolate, peanut-flavored little Reese's Pieces.

Reese's Pieces have been a smash at the candy counter thanks to a smash at the box office—and to another Dearden initiative, advertising. As every moviegoer knows, Reese's Pieces were a favorite of E.T., that temporarily earthbound space creature. Hershey Foods spent \$1 million promoting the candy in connection with the movie's opening in May, 1982. Sales since then have been enough to make any candy maker salivate, and Hershey is still using the E.T. theme, under an agreement with the movie's producers.

Before Dearden's day, the Hershey company did not advertise in the mass media. Milton Hershey used to say: "Give them quality. That's the best kind of advertising in the world." His death in 1945 brought no policy change.

Dearden, when he was sales and marketing director, saw trouble ahead. He talked things over with Mohler. Says Mohler: "It was obvious that our whole strategy of selling had to be different. We were communicating, through hundreds of salesmen, with the retailer only. We had to communicate with the consumer. The growth of the supermarket meant thousands and thousands of additional items were on the shelves. We needed more product recognition."

Soon the Hershey company was advertising.

Going outside the company to hire young M.B.A.'s and a number of veterans, Dearden put together a marketing organization. "But I wasn't sure where to find a top guy."

He found him through Norman Vance, then president of the Chicago-based Mars Company. Mars was merging with another candy producer, M&M, which was owned by Forrest Mars, a member of the family that owned the Mars Company. "Duke Vance and I were good friends," Dearden says. "He told me that some fellows would be leaving because of the merger and that there was one I ought to look at."

The job candidate was William F. Suhring. He became a Hershey Foods vice president.

Dearden concedes he might not get

help from a Mars executive today of the kind he got from Vance then. The two companies have always competed at the candy counter, but in those days Mars also bought chocolate coating from Hershey. It no longer does so.

Mars and Hershey are America's two biggest confectionery companies, accounting—by a Hershey estimate—for one third of sales. The next eight producers account for another sixth, according to the estimate, and some 1,000



others for the rest. There have been reports that Mars, now headquartered in McLean, Va., is ahead of Hershey in candy, but Mars, as a privately held company, is not required to release figures and resolutely does not. Hershey definitely leads in chocolate sales, Mohler says.

(Hershey's profitable link to E.T. is tinged with irony in that Mars, which advertised heavily in years when Hershey did not advertise at all, passed up the same promotional windfall. The film script originally had the extraterrestrial enamored of M&M's, not Reese's Pieces, but Mars declined a deal with the producers.)

REGARDLESS of who leads, Hershey balance sheets reveal little to be sour about. Net income of \$94 million last year was 17 percent above the 1981 figure. The company has raised its dividend for eight consecutive years.

Which is good news for Hershey, Pa. (pop. 13,249), where 5,500 of the firm's 13,600 full-time employees work. Good news, too, for the Milton Hershey School, which gets most of its income from company dividends. It also gets income from HERCO, Inc., operator of a theme park, hotels and other ventures. HERCO, like the school and Hershey Foods, was founded by that extraordinary man, Milton Hershey.

After business failures in Philadelphia, Chicago and New York, Milton Hershey finally found success making

caramels in Lancaster, Pa. In 1900, at age 43, he sold out for a cool \$1 million. He could have lived a life of leisure, but instead, he went into the chocolate business, returning to the part of Pennsylvania where he grew up—an area where lush dairy farms provided a ready source of milk.

He built a chocolate factory, and he built an idyllic community. It was a company town unlike others—workers' homes were not all drab look-alikes.

There were lawns and trees, and workers could buy or rent. There was parkland, a beautiful garden area, a museum, a community theater, an arena, and more. Milton Hershey wanted happy people.

Bill Dearden has no desire to live anywhere else. He feels at home among the people he greets at company facilities, in church or while playing one of the town's five golf courses.

Dearden has been married for 39 years to the former Mary Kline, whom he met in college, and has

two daughters, both long out of the house. He still has much contact with youngsters, though, since he is chairman of the Milton Hershey School's board of managers and visits his alma mater often.

Milton Hershey and his wife, who had no children, put the school on 10,000 acres. The 1,200-plus-enrollees—now girls as well as boys, and more often there because of broken marriages than parents' deaths—live in 85 houses with house parents, and they must do chores as well as study.

In his office, where he dips into dishes of Hershey miniatures as he explains that he has kept his weight at 220 pounds over the years, Dearden talks of Milton Hershey and of his own days at the school. "He was someone who believed in helping other people so much. We were his boys; he told us that."

The office is in what once was Milton Hershey's home, a stone mansion overlooking his chocolate plant. It houses Hershey Foods' 11 top executives.

Bill Dearden looks around him—at furnishings that go back to Milton Hershey's day, at a miniature of a statue of Milton Hershey with one of "his boys."

Is he happy that he is helping to carry on Milton Hershey's business and philanthropy? "My life has fallen into place beautifully," he says. "I wouldn't change any of it." □



To order reprints of this article, see page 67.

FORESIGHT IS A DARN SIGHT BETTER THAN HINDSIGHT.

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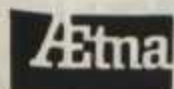
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How To Get the Most Out of a Consultant

The right outside talent can help your company—if you choose wisely, lay the proper groundwork and keep your ego out of the way.

By Harry David

LET'S FACE IT. Consultants are controversial. Their clients do not want to live with them—or without them. Courted and cursed, loved and left, extolled and excoriated, they are hired for purposes ranging from helping a company sell a product to advising it on what kind of machinery to buy.

For many business people, deciding whether or not to employ a consultant is agonizing. When do you need outside talent? And why?

"The quickest way to waste time and money is to call in a consultant when you don't know what you want done," says Robert E. Bradford, senior vice president of the A&P supermarket chain. "The only thing he has to sell is his time. You don't want the meter running until you define in your own mind what your needs really are."

HARRY DAVID is a Washington-based writer and president of his own management consulting firm, H.D. Associates.

You should have a compelling reason to call in a consultant, advises Lewis M. Helm, president of Capital Counselors, a Washington firm that specializes in public relations and political consulting.

Helm says he is not referring to what some cynical consultants call "SOS time"—when the winds of change have badly battered your business, a once-domicile board has suddenly risen in wrath to question your leadership, or clients or customers have deserted your passé product or service. When it is SOS time, it may be too late for even the most sophisticated consultant to save the situation.

Instead of waiting for an emergency, "include a consultant's services in your firm's five-year plan," suggests David

M. Fitzgerald of Fitzgerald Associates, Inc., part of a group of independent Washington consultants who are housed under the same roof and who often pool knowledge and resources.

Fitzgerald shies away from short-term and SOS-time assignments. "Permanent arrangements are more cost-effective for clients," he says. "And besides, long-term problems, such as many organizations have, require a long-term and close client-consultant relationship."

Long-term relationship or not, the reasons for employing a consultant may vary widely. For example:

- You are the top person in a top firm. You see a problem on the horizon that neither you nor your staff have the knowledge to solve. Or you see an opportunity you might wish to explore and exploit.
- Yours is an old-line organization that needs fresh ideas for improving its standing.
- You hope to establish a business

ILLUSTRATION: WILLIAM COULTER



but lack expertise for proper planning.

There may be times that justify hiring outside help even when you have in-house expertise. "Outsiders may bring a fresh perspective and needed objectivity to a project or problem," explains Robert J. Carlotta, a frequent user of consultants when he headed the Neighborhood Development Collaborative, a Crofton, Md., planning organization.

These are positive reasons for asking an outsider's help. Often the reasons are negative instead.

"A federal agency had commissioned a report," recalls David J. Wimer, a partner in the Hay Group, a Philadelphia-based firm once primarily known for compensation consulting but now engaged in broader activities. "After it was done by outsiders, that agency called us in to 'bless' it. They wanted our firm's credibility. We walked away from that request as we have walked away from similar ones."

Many reputable consultants shun being used to endorse a decision already made, a report already completed or an idea that some executive is in love with.

But such use—or misuse—of consultants is not uncommon. A couple of years ago, when I had been persuaded to meet with the managing partner of another consulting firm, I sensed almost at once that I was being asked—tacitly—to perform a similar priestly function. He spread out before me ideas about his organization's future course, most of them impossible or impractical.

It became clear that he cherished his brainchildren. His attachment to them made him talk nonstop for nearly two hours, fearful that an outsider might throw cold water on them. When I finally had the floor—briefly, because he had suddenly "run out of time"—he responded to my "yes-but" endorsement with a frosty, faraway smile. Daddy's offspring were perfect and deserved unquestioning love. I left, sent him my bill and devoted myself to more promising clients.

WHEN YOU DO have compelling reasons, however, how do you find the right consultant?

Query someone in your trade association or professional society, or someone who is in a similar business, suggests Jack S. Blocker, a Hay Group associate. "If there is no question of conflict of interest or your organization operates in a different geographic area from his, he'll tell you about someone who has worked successfully for him."

One man who has found good outside talent that way is Joseph F. Joyce, an American Bankers Association executive. However, he recalls the time he needed a consultant when he was the

director of development for Ryan Homes, a nationwide builder. After talking with other industry members, he thought he had found "the right one."

"But once the consultant understood the problem I needed help on," Joyce says, "he stopped me. 'I am not the best man for you,' he told me." A good consultant knows his limitations and admits them.

Before hiring an outsider, make sure you can work with him. Pay attention to personality. "I had made an agreement with a consulting firm," recalls Joyce. "But the man who was to be our

For Further Information

The Institute of Management Consultants has released a leaflet, "How To Select a Management Consultant and Get Your Money's Worth."

Management consultants specialize in such areas as research and development, financial planning, manufacturing, wage and salary administration, and electronic data processing, according to the institute, which certifies the professional competence of individual consultants. The publication covers such topics as determining what kind of consultant to hire, screening candidates and evaluating a project's success.

For a free copy, write to the institute at 19 W. 44th Street, New York, N.Y. 10036.

consultant turned out to be so abrasive that I had to ask the firm to assign someone else."

Suppose you have found the right consultant, but he does not seem to be performing as you had hoped. Often, when consultants are blamed for not doing their job, it is because the executive has not done his.

When you hire a consultant, pave the way for him by informing your staff at once. Explain why you have hired him and outline the limits of his mandate. Remind your people, too, in the words of Capital Counselors' Lewis Helm, that "outsiders are not competitive with, but complementary to, staff." This will help prevent the fear-of-change syndrome from arising in your organization.

You must also make sure the consultant knows what is on your mind. For example:

- Outline your perceived needs. (In the course of his work, the consultant may uncover others.)
- Give guidelines for the assignment.

(The imaginative consultant will often exceed them.)

• Take him into your confidence; doubts about your standing with your board, customers and public are indeed his business.

Make clear—and mean it—that you will be available to him when he needs you. Let him know that you expect him to be available when you need him, too.

AND AS YOU work with your consultant, learn to take it. "I tell my clients some unpalatable truths," says Joyce Freeland, a partner in Enterprises Associates, an Annandale, Va., firm specializing in helping new businesses. In other words, good consultants make bad yes-men.

"Consultants," admits Jack Blocker, "are a strange breed: a composite of entrepreneur, individualist and ego-satisfaction seeker. They like sitting at the right hand of decision makers, but they also like to make a contribution on their own initiative, one that goes beyond their mandate."

Adds John A. Schnitker, former undersecretary of Agriculture and now president of Schnitker Associates in Washington: "A consultant must be broad-gauged intellectually, with an analytical mind. And if you want results, look for a touch of initiative and brassiness. You also want him to be a risk taker and an anticipator."

How much should you pay for consulting services? Consultants vary, and so do their prices. In some cases that I know of, a consultant will work for \$150 a day; others charge many times that—and may be worth it.

One of my good friends, a leading consultant, is paid an annual six-figure retainer by a company for which, during most of the year, he does little work. Why is that company seemingly throwing money at him for so little? Because when a crisis arises, he will be at the company's side, instantly.

Fees will depend on the consultant and on the type, complexity and length of assignment. This is no place for bargain hunting or succumbing to "I can save you money" approaches. Consultants who can save you money avoid saying so. One frequent employer of outside talent cautions that the consultant's credibility, judgment and expertise—not your budget and his fees—should be the determining factors.

"A client," David Fitzgerald sums up, "is hoping to enhance his position when he buys consulting advice." Precisely. And isn't ultimate success a compelling reason for giving the matter your full attention? □



To order reprints of this article, see page 67.



Business Journalism

VS.

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By presidential request, business volunteers are offering prescriptions for government efficiency.

IT MAY BE HARD for some bureaucrats to swallow, but the President's Private Sector Survey on Cost Control has been offering medicine for runaway government spending and staggering federal deficits that is like one of those cold-remedy capsules that goes off at intervals.

Starting in early April and winding up late this month, the survey, headed by New York industrialist J. Peter Grace, is releasing 38 separate reports on ways to conserve billions of dollars in federal operations. Grace, who is chairman of W.R. Grace & Company, was appointed more than a year ago by President Reagan.

An indication of how government has grown is that the so-called Grace Committee is an army, compared with a platoon that looked into the workings of the federal government 30 years ago.

In 1953 Congress commissioned a 12-member blue-ribbon panel, headed by former President Herbert Hoover, to recommend ways to make the government operate more efficiently. All 12 were current or former federal officials. They produced 1,632 pages in 19 reports on government management problems.

Grace heads a volunteer team of 163 leaders of private industry, supported by another 1,300 volunteer business experts at work on 36 separate task forces. The first 11 Grace Committee reports alone consisted of 8,839 pages of findings, with perhaps 20,000 pages more due by the end of June.

One report in the first batch—it dealt with federal personnel management—was blasted by Rep. William D. Ford (D-Mich.), chairman of the House Post Office and Civil Service Committee, as "the most outrageous piece of statistical sleight of hand I have encountered."

The report said that savings of \$35 billion, "fully supported by adequate documentation," can be achieved over a three-year period by cutting some of the federal work force and changing some retirement and insurance benefits.



J. Peter Grace heads the Private Sector Survey on Cost Control, now completing 13 months' work.



George Bennett was part of the small army of private business experts involved in the survey.

Ford said the Grace Committee report "manipulates selected data from old reports to support preconceived cost savings where little or none exist." He scheduled hearings for late in May to allow experts on the Grace Committee to rebut his charges.

IT IS "difficult to believe," Ford says, "that the group of top-drawer corporation chiefs who worked on this report could produce such an unprofessional, unimaginative and misleading document. One has to wonder how much of the original work was laundered by overzealous political hands."

George Bennett, who served as project manager for another of the Grace Committee's reports—on the Commerce Department—says he is "saddened" by Ford's attitude, even though Ford's criticisms are not directed at the Bennett unit's findings.

"The Commerce task force was very dedicated and conscientious—a bipartisan group," Bennett says. "In fact, I don't even know the political affiliations of the 45 members of my team."

Bennett is chairman of Braxton Associates, Inc., a Boston management consulting firm that specializes in corporate strategy. One of his clients is Corning Glass Works. Grace named Amory Houghton, Corning's chief executive officer, as cochairman of the task force to investigate the Commerce De-

partment, and Houghton asked Bennett to run the task force. Bennett spent six months in Washington on the project; he donated his time. He also moved his family of four from their four-bedroom home in the Boston area to a one-bedroom apartment hotel in downtown Washington.

Other members of Bennett's team stayed at the same hotel. The bill was paid by Corning, says Bennett, who estimates that it came to at least \$40,000 a month.

Last June, at the outset of the Commerce Department study, Commerce Secretary Malcolm Bal-

drige assembled his assistant secretaries and explained that he wanted them to cooperate fully with Bennett's team by supplying documents and any other information requested. The team then was given offices in the department's main building. The team was made up of professional auditors, management consultants and analysts, and lawyers.

"There was no second-guessing here," says Bennett. "Our team worked in the field and in Washington, where we could make first-hand observations."

In the end, Bennett's group reported that if its recommendations were followed, there would be \$657.8 million in fully substantiated savings and increased revenues at Commerce over a three-year period.

Bennett says one Commerce agency, the Economic Development Administration, could save \$60 million just by turning back unspent money earmarked for projects that have been delayed four years or more.

Such findings typify what Grace says the survey is all about: the need for better planning in government.

"When 86 percent of everybody's taxes is swallowed up in transfer payments to other individuals," says Grace, "and only 14 percent pays for the actual cost of government, we are in a crisis."

—Seth Kantor

COMPARABLE WORTH:

Thorny Wage Issue

Equal pay for the same work is required by law. Should the requirement be extended to different jobs of equal value to the employer?

By Del Marth

IT'S AN OLD STORY. Ginger Rogers was paid less than Fred Astaire. Golfer Patty Berg's winning purses were minuscule next to Ben Hogan's. Bonnie got a smaller cut than Clyde.

Today, as in the past, there is a big difference between what men and women earn. And the difference may be growing, says the Women Employed Institute.

The institute, a national organization devoted to concerns of working women, offers some statistics to prove it. For example, median earnings of full-time women workers today are 59 percent those of men (\$12,000 versus \$20,260); in 1955, women's earnings were 64 percent of men's earnings. The gap has widened, the institute says, even though working women today have as much education as working men—a median of 12.8 years of schooling.

According to the Bureau of Labor Statistics, women remain concentrated in jobs that have traditionally been regarded as "women's work."

Among the 42.7 million women holding jobs in 1981, 14.6 million were clerical workers. Another 3.7 million were nurses, health technicians and health service workers; 2.4 million were teachers; 1 million were service workers in private households and 3 million were food service workers.

Men, in contrast, dominate professional, technical and managerial positions, according to the BLS. Women make up only 27 percent of managers and administrators.

But how much of this difference is due to discrimination? And if there is discrimination, how effectively can it be attacked through federal law? The answers remain elusive.

Men and women in the same job, like these firefighters, can expect to get the same pay. Now the issue is pay for different jobs whose worth is comparable.

In 1963, Congress passed the Equal Pay Act, which amends the Fair Labor Standards Act by barring sex-based discrimination in employment. Two federal agencies—first the Labor Department and then the Equal Employment Opportunity Commission—have been given the task of combatting such discrimination.

Congress pursued an apparently simple goal: equal pay for the same work. The idea is that if, say, a woman bus driver and a male bus driver work for the same employer, perform the same duties and have the same experience on the job, their pay should be equal.

Nevertheless, applying that principle is not easy.

Last December in San Francisco, a federal appeals court ruled against some women insurance agents; they had sued their employer because male agents were paid higher wages. In setting each agent's salary, the company had taken into account the agent's salary history. The women argued that this was discriminatory under the Equal Pay Act because men's salaries have historically been higher than those of women doing the same work. The appeals court disagreed, saying:

"The Equal Pay Act entrusts employers, not judges, with making the often uncertain decision of how to accomplish

business objectives... A factor used to effectuate some business policy is not prohibited simply because a wage differential exists."

If "equal pay for equal work" remains a slippery concept, that is even more true of the related concept of "equal pay for jobs of comparable worth."

THE COMPARABLE WORTH concept demands more than paying an equal wage to people doing the same job. It demands that a worker in one category (word processing, say) and a worker in another job category (a welder, for example), working for the same company, be paid equal wages if both are performing work of comparable value to the employer.

Strictly speaking, the sex of the workers involved is irrelevant; but usually the supposed inequities involve sex discrimination.

The comparable worth issue has surfaced only in recent years, as more women have entered the work force,





Many women complain that jobs traditionally held by men pay more than other jobs of equal value that are held by women.



more women's groups have been organized and more women have been elected to Congress.

Last fall, three House subcommittees held four days of joint hearings on the comparable worth issue. The hearings were chaired by three congresswomen—Reps. Patricia Schroeder (D-Colo.), Geraldine Ferraro (D-N.Y.) and Mary Rose Oakar (D-Ohio). Rhetoric was profuse, charts were numerous and agreement was unanimous that wage discrimination between the sexes does exist.

But no agreement on policy to remedy such alleged discrimination came out of the hearing, and the reason for that became clear the first day. Comparable worth, like beauty, is in the eye of the beholder.

"The entire issue is overwhelming," said EEOC Chairman Clarence Thomas. The commission has been unsuccessful at developing a policy on comparable worth, he explained, "because the law on the issue is unclear to us and to the legal community."

Besides, he added, wage discrimination "is built into the entire wage-setting process in the economy"—by employers who segregate occupations by sex, by males who in some cases refuse to work with females, by employers who discriminate in order to realize economic benefits (since women's bargaining positions are usually weaker than men's), by job descriptions that call for men or women applicants, and by prejudice in boardrooms.

"Both men and women tend to value men more highly than women," testified psychologist Ann T. Viviano of Pace University.

Some witnesses at the hearings saw pay inequities for jobs of comparable worth disappearing only if all jobs were no longer thought of as "women's jobs" or "men's jobs." A long-term proposition, all agreed.

A shorter-term solution has been offered by the National Academy of Sciences, an independent research institute commissioned by EEOC to investigate whether appropriate job measurements can be developed.

The academy suggests that each employer use a single job evaluation system—uniform criteria that can be used to measure the value of all employees' jobs. "A single system would better facilitate the comparison of jobs where comparable worth is an issue," it said.

Lawrence Z. Lorber, a Washington attorney and former Labor Department official, contends that there may be

only one feasible way for Congress to deal with comparable worth: a federal statute requiring employers to adopt such a single job evaluation system.

But, he says, some questions must still be addressed before that course is adopted: "What would be the effect of a federally mandated job evaluation system, for example, on the lagging productivity we are facing? And what authority or expertise does the federal government have to prescribe the personnel and compensation policies of almost every employer in the country?"

WITHIN THE FEDERAL government itself, the agency that administers the civil service says it is already attacking wage discrimination through a job evaluation system. Donald J. Devine, director of the Office of Personnel Management, says OPM is dropping the old narrative descriptions of specific jobs and is instead assigning numerical point values to various job characteristics in order to determine grade levels and compensation.

That may sound progressive, but OPM got into trouble with some women's groups recently when it redesigned job qualifications for librarians—stripping the job of some of its credential requirements and proposing a lower entry-level grade, GS-7 instead of GS-9. A lowered grade would have meant a lower entry pay level.

When the American Library Association pointed out that the GS-9 level still applied to civil servants with educational requirements comparable to those of librarians—such as chemists and foresters, professions dominated by men—OPM vowed to review its proposal.

So even the adoption of a plan promoted as a cure for sex discrimination is not without its pitfalls.

Some skeptics suggest that all such efforts may be addressing a problem that does not really exist.

Says Arthur F. Rosenfeld, a labor law attorney for the U.S. Chamber of Commerce: "It has not been established that the disparity between what men and women earn is caused by sex discrimination."

Equal opportunity and affirmative action programs "have made tremendous strides in creating equal access" to jobs by men and women, Rosenfeld says. When women can become plumbers as readily as they can become nurses, he continues, women have no ground for complaint when they choose jobs that are less highly valued in the marketplace.

"If nurses seek wages comparable to plumbers' wages," he says, "let them become plumbers." □

In the Vanguard of the Van Revival

GOOD TIMES, Inc., of Arlington, Tex., was about to go under. Robert O. Isham decided he could ease the firm's plight by resigning his position—president—because the owner could no longer afford to pay his salary.

The owner had a different idea: Why didn't Bob buy the company?

Isham, a certified public accountant, knew all the numbers, and those numbers definitely said no. He had joined Good Times three years earlier, in 1976, as its controller and had seen the company decline. Instead of building cash reserves, the company, which specialized in converting unfinished vans to comfortable recreational vehicles, had invested its profits in stripper oil wells, a hydroponic vegetable farm, and long-horn and quarterhorse ranches.

So when rising gasoline prices depressed sales of the gas-guzzling vans, Good Times had no reserves to fall back on while it rode out the downturn and adjusted to the changed market conditions.

Isham and John Rushing, another of the company's executives, decided to take the plunge. They were confident that converted vans—outfitted with all sorts of luxury appointments and made popular by California surfers and hippies in the early 1970s—were not going to become museum pieces despite escalating gas prices and the vans' notoriously low mileage.

With \$200,000 of their own money Isham and Rushing bought the assets of the van division (mostly raw materials, hand tools and office equipment). They used a \$3 million loan from a local bank to buy the 300 unconverted vans the company had in its inventory.

With 20 employees and rented space, Tra-Tech started business in July, 1979, working on one van at a time. Many times during the company's early days, Isham was at his bank's door first thing in the morning to borrow \$3,000 to finish one van. Then he turned into a salesman, and if all went well, he was at the bank the following morning to make a \$4,500 deposit.

Isham and Rushing figured right—today's van owners come from all walks of life, and the vehicles are used for a wide range of activities, commercial and recreational.

The new company, Tra-Tech, (short for transportation technology) broke even the first year with sales of \$3.6



When gasoline prices skyrocketed, many people thought vans would soon disappear, but Robert Isham disagreed and started a van conversion firm in Texas.

million. The following year sales were \$8.3 million. Rushing retired in 1982. Isham became sole owner, and sales climbed to \$19.7 million. This year Isham expects sales to approach \$40 million.

"I have to thank Detroit," says Isham, who points out that American auto manufacturers, in their zeal to make smaller cars, essentially abolished the large station wagon. "There is no alternative to the van if you want to move seven or eight people," he says. "Downsizing, which we thought would hurt the van industry, actually became our salvation."

Today's vans are "a far cry from the hippies' vans of the '70s," says Isham, whose company has adopted the techniques aircraft manufacturers use in making plastic panels for airliner interiors. He says, "Use of plastics and other weight-saving techniques has resulted in a weight reduction of about 40 percent, and that has increased gas mileage significantly—from 11 miles per gallon to 17."

The converted Chevrolet, GMC, Ford and Dodge vans are sold only to dealers. That is part of the contract Tra-Tech has signed with the automakers, whose vans arrive at his plant with wooden crates in place of seats. A customized Tra-Tech van sells to consumers for between \$16,500 and \$20,000, depending on the accessories.

Tra-Tech's Fort Worth plant turns out 18 converted vans a day. Plants in

Atlanta and Pontiac, Mich., in which Isham is a partner, each produce five vans a day. Plastic panels for the van interiors are all made in the Fort Worth plant, which employs 88 workers.

THE ISHAMS and their three children live a few miles south of Decatur, Tex., where Bob Isham pursues his hobby, Texas history. His home is modeled after a cavalry officer's quarters of the 1870s.

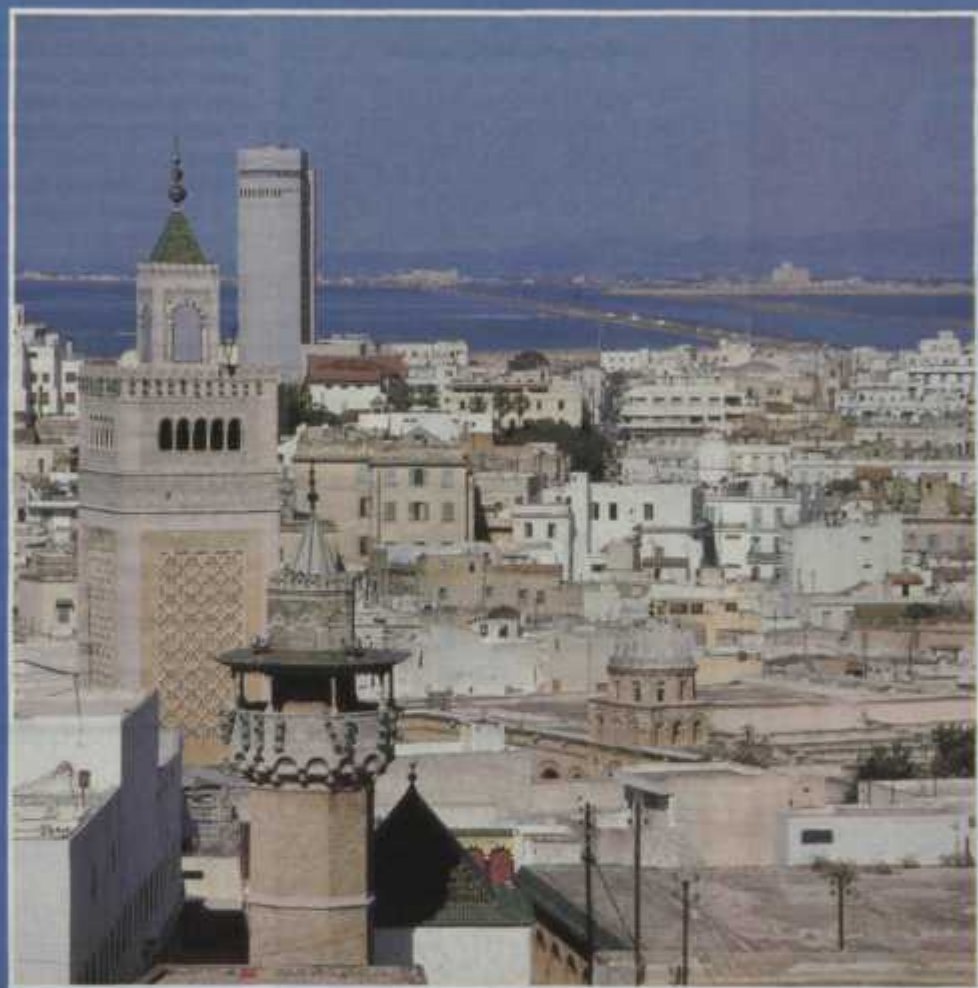
Isham, 44, grew up in Mexia, an early oil boom town in central Texas, where his family had settled soon after he was born. He got a degree in accounting at the University of Texas at Arlington, married the dean's daughter and earned his CPA. He went to work in Fort Worth for a national accounting firm; 10 years later he became a partner in the accounting firm of Robertson and Isham, and from there he went to Good Times.

Isham no longer has to be at his bank when the door opens so he can borrow a day's worth of operating funds. His company is the largest van conversion operation in the United States and has made him a wealthy man.

"It was a terrible situation," he says of Tra-Tech's earliest days. "I had never been a salesman, but I became one very quickly." And one of the best, if volume is any proof—his corner of the market has increased tenfold in three years.

—Grover Heiman

TUNISIA



An Ancient Land's Modern Glow



Acknowledgement

NATION'S BUSINESS expresses its thanks and appreciation to His Excellency Mr. Habib Ben Yehia (below), Ambassador of the Republic of Tunisia to the United States. His assistance, dedication and cooperation made this section a reality.



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Political stability

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Strong economic performance

Although worldwide inflationary and recessionary trends have led to a steady worsening of the economies of many U.S. trading partners, Tunisia's economy entered 1982—the beginning of its sixth five-year development plan—with a strong economic performance. The growth rate of the gross national product (at fixed prices) reached 6.3 percent, and the prospects for the Tunisian economy are favorable.

The country's new five-year development plan envisages total investments of 8.2 billion Tunisian dinars (U.S.\$16 billion). This plan is expected to yield an

average annual G.N.P. growth rate of 6 percent in real terms and a major improvement in living standards. The plan assigns top priority to the industrial sector and to tourism.

The manufacturing industries have been allocated 1.6 billion dinars. Emphasis has been put on the mechanical, electrical and textile industries. Allocations for the manufacturing sector account for 19 percent of the development plan's total investments. More than 109,000 jobs are expected to be created—about 40 percent of total jobs planned.

Today Tunisia is linked with all European, West African and Middle Eastern countries through a modern, automated communications system, thus making it an efficient location for manufacturers wanting to sell their products overseas.

However, Tunisia's imports had to increase in recent years to meet its development plans. This generated in 1981 a deficit in the balance of trade totaling 686,000 dinars (about \$1 billion, with exports of \$2 billion and imports of \$3 billion). This deficit is likely to stay at the same level in 1983, despite an estimated 40 percent increase in imports, thanks to an increase in exports.

The major sources of foreign currency in Tunisia in 1982 were as follows:

- \$1 billion from exports of petroleum.
- \$950 million from exports of agricultural and industrial products.
- \$500 million from tourism.
- \$300 million from remittances by Tunisians working abroad.

Investment incentives

To ensure the success of foreign investors, the Tunisian government created a number of specialized corporations and government agencies to assist business people in all economic sectors. Such corporations include:

- Agency for the Promotion of Investments (API) and the Industrial Real Estate Agency (AFI) for the industrial sector.
- National Office of Tourism (ONTT).
- Agriculture Investment Promotion Agency (APIA).
- Tunisian Enterprise for Petroleum Activities.

Manufacturing industries

The government issued two laws for the manufacturing industries. Public Law 72-38 created the Agency for the Promotion of Investments and introduced special incentives for export-oriented industries. Public Law 81-56, June, 1981, introduced investment incentives in the



Domes are a common sight in Tunisia.



Museums contain Roman mosaics.



There is a Roman coliseum at El Djem.



Tunisian handicrafts are widely heralded.



Ornate doors are a national tradition.



Port El-Kantaoui has a famed golf course.



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TUNISIA

manufacturing industries and put in place the basis for industrial decentralization.

The Agency for the Promotion of Investments was created in April, 1972, as a government agency under the aegis of the Ministry of National Economy. It examines proposals for industrial projects, assists entrepreneurs with implementing their projects, conducts studies and acts as the sole intermediary between the government and the investor. This agency handles all investment requests and should answer them within a month. The agency offers the services of its 250 specialists free of charge.

From 1973 to 1981, more than 8,500 industrial projects representing investments of over 2.7 billion dinars were authorized by the agency; 300 of these projects are fully export-oriented, and about 135 were with West German investors. The API's board of directors includes representatives of the Prime Ministry and the Ministries of Economy, Finance, Agriculture, as well as the Central Bank. For that reason, the endorsement of API's board of directors means the go-ahead of all government departments.

Public Law 72-38 introduced the following investment incentives for export-oriented industries:

- Exemption from income tax for the first 10 years (which is 40.1 percent of net profit) and a reduced income tax rate of 10 percent for the next 10 years.
- Exemption from customs duties for all raw materials and semifinished merchandise necessary for production and export of the finished products.
- Freedom to transfer all profits and capital.
- Opportunity to choose a manufacturing location anywhere.
- Foreign investors may own 100 percent of equity.

Public Law 81-56 encourages the production of manufactured products and the decentralization of industries. The law encourages foreign participation in the transfer of technology and the expansion of foreign markets and requires a minimum of 50 percent of the invested capital to be Tunisian. Incentives vary, depending on the number of jobs created and the location of projects within five industrial zones (from Zone 1, which includes the major cities Tunis—the capital, shown on page 53—Sousse and Sfax, to the other four Zones, which divide the rest of the country). Incentives include:

- Income tax exemptions from 40 to 90 percent, based on the number of jobs created, and for 5 to 10 years, depending on the industrial zone.
- Full payment of infrastructure costs by the government for all projects that are located within the areas already de-

TUNISIA

drive connects any of Tunisia's five international airports with any tourist area.

• **Financing.** According to the law, investors must provide at least 40 percent of the invested capital, and 60 percent can be financed from Tunisian or overseas sources. Ownership can be 100 percent foreign.

• **Financing conditions.** Loans in Tunisia are long-term (14 years), with 12 percent interest and two years grace period. Three percent of the 12 percent will be paid back by the government to the investor, in addition to all expenses for feasibility studies (provided they were conducted by a Tunisian consulting firm). The law requires a Tunisian consulting firm and contractor.

• **Transfer of capital and profits.** Investors are guaranteed transfer of all their invested capital and profits without limitations. The Central Bank authorizes such transfers without any delays.

In addition to these incentives:

• A budget of more than \$7 million is allocated for overseas promotion of



Many foreigners enjoy Tunisian hotels. This scene is at Sousse.

tourism. Government tourist offices are operating in Europe and elsewhere.

• Tunisia is a signatory to the World Bank's agreement guaranteeing foreign investments and to a bilateral agreement with the Overseas Private Investment Corporation (OPIC).

• Seven hotel schools and institutions provide the industry with hundreds of graduates every year.

Banking

During the last decade, Tunisia has eased its exchange control system,

strengthened the capital base of existing commercial banks and created five joint development banks.

Thanks to the country's political stability, sound and careful management of foreign debt and foreign exchange reserves, Tunisia enjoys a prime risk rating in the international business community.

The minimum capital allowed for commercial banks is now at 5 million dinars and will be raised to 10 million dinars before the end of 1986.

In addition to the commercial banks, eight development banks operate today in Tunisia. They specialize in equity participations and medium- and long-term loans to public, semipublic and private projects. Three banks are Tunisian: Banque de Développement Economique de Tunisie (BDET), Compagnie Financière Immobilière et Touristique (COFIT) and Bank for Agricultural Development. Five are partnerships between Tunisia and each of the following: Saudi Arabia, Kuwait, United Arab Emirates, Qatar and Algeria. □

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UNION OF INTERNATIONAL BANKS.....	2%

—UNITED BANK OF
COMMERCE AND INDUSTRY..... 2%

• PRODUCTION

—6,000 UNITS IN 1984
—15,000 UNITS IN 1987/88

• EMPLOYMENT

—2,000 WORKERS

PHOTO: GARY KIEFFER



Where Taxpayers Square Off With The Collectors

IRS can be sued easily and cheaply (unless you lose) in this tribunal, and more and more people are doing it.

By Tony Mauro

THE TAX DEDUCTION seemed reasonable enough to B.C. and Karen Cole, who were about to take over management of a store in a summer resort near Shelton, Wash. They lacked business experience, so they visited owners of other resort businesses on the West Coast, then deducted as a business expense their \$2,300 in travel costs.

The Internal Revenue Service did not like that idea and hit the Coles with a notice of tax deficiency. But the Coles stuck to their guns and, like more and more taxpayers these days, turned to the U.S. Tax Court for a decision. The court sided with IRS.

"While we compliment petitioners on availing themselves of every opportunity to enhance their business," the court said in February, "we are not persuaded that business was the primary purpose for their trips."

TONY MAURO is the Supreme Court reporter for Gannett News Service.

NATION'S BUSINESS • JUNE 1983

Last year 30,775 taxpayers like the Coles took a trip to the Tax Court in a battle to beat IRS or at least make it fight for every dime it gets. That is nearly double the number that sued in the court a mere four years ago; the increase has led to a backlog of more than 50,000 pending cases.

Those logjammed cases involve more than \$7.2 billion in unpaid, disputed taxes. If past patterns hold, IRS eventually will recover about 30 percent of that amount.

The names of the famous and not-so-famous are in the annals of the court. Actress Elizabeth Taylor and "happy hooker" Xaviera Hollander have fought alleged tax deficiencies there, as have civil rights leader Roy Innis and newsman Mike Wallace.

Corporate taxpayers take their cases before the court as well. The Raymond Bertolino Trucking Company, of Akron, Ohio, recently defended an unusual business deduction it had taken in 1977 and 1978—the more than \$80,000 it had paid in kickbacks to win a hauling and excavation contract for a local shopping center. The Tax Court said such payments could not be deducted from income because the company had not shown they were "ordinary or customary."

Exotic or routine, all cases at the court start the same way—with the issuance of an IRS notice of deficiency. Those notices usually are issued only

Chief Judge Theodore Tannenwald, Jr.: Recent tax laws will add to the crush at the Tax Court.

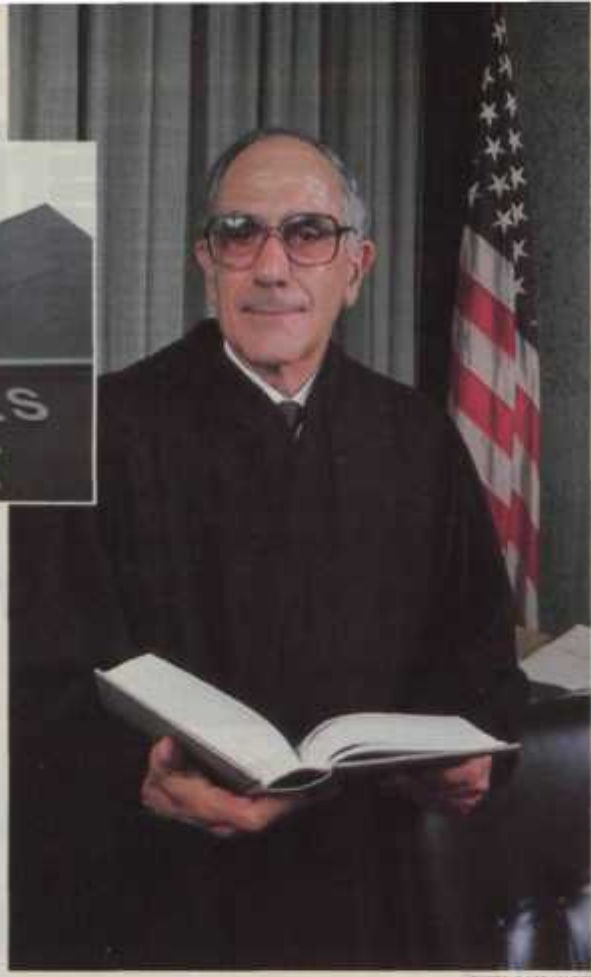


PHOTO: DAVID WILCOX

after earlier appeals and negotiating procedures have failed, but they do not mean that IRS has given up hope of settling with the taxpayer.

In fact, about 80 percent of the suits filed at the Tax Court are settled before they reach trial stage. And the taxpayer usually does better by settling. Court statistics show that, in cases settled before trial, IRS recovers, on average, less than 30 percent of the tax money it claims; at trial, IRS does better, recovering close to half.

Ninety percent of all litigated tax disputes go before the Tax Court. You may fight IRS in a U.S. District Court or in the U.S. Court of Claims, but there is a hitch. At those

courts you must pay the tax first and then sue for a refund; at the Tax Court, you sue IRS without paying first.

FOR YEARS, when IRS charged low interest rates on overdue taxes, there was a strong incentive to go to the Tax Court. "When the government interest rate was lower than the prevailing interest rates, in a sense it paid not to pay your taxes and to go to the Tax Court instead," says Andrew Singer, tax expert at the Washington law firm of Covington & Burling and a former Tax Court law clerk.

Since 1981 IRS has been charging 16 percent interest; Singer thinks that the incentive to sue has thus been diminished and that filings will taper off.

But other unique features of the Tax Court make suing IRS easy:

- The court comes to you. The court's 19 permanent judges and 10 special trial judges are based in the nation's capital but travel to 102 cities around the country to hold trials.

- In cases involving \$5,000 or less in disputed taxes, suing is cheap (it costs \$10 to file), and trials are informal. Says longtime court clerk Charles Casazza: "Strict rules of evidence are not imposed in small cases. A high percentage of the taxpayers represent themselves, and they are encouraged to do so." The filing fee rises to \$60 for cases involving more than \$5,000.

- Under rules that take effect later



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this year, taxpayers who win their cases against IRS can have their attorneys' fees paid by the government.

Why has the Tax Court, established in 1924, become so popular?

Aside from the ease of filing, and the attraction—until recently, at least—of not having to pay while the case is pending, some experts cite the complexity of tax laws and economic hard times.

The Tax Court's chief judge, Theodore Tannenwald, Jr., told Congress recently that "the growing dissatisfaction of citizens with the tax system and the pressure upon them because of the current economic situation" have resulted in more IRS notices of deficiency and, therefore, more suits in his court. Tannenwald predicts a new spurt as disputes arise from 1981 and 1982 tax measures.

ANOTHER FACTOR is the proliferation of tax shelters. Fully 30 percent of the court's backlog, according to Casazza, involves disputes between taxpayers and IRS over the legitimacy of tax shelters. One judge alone has 1,500 cases on his docket involving tax implications of so-called "London option" commodity tax straddles.

In tax straddles, as Singer explains it, an investor makes what is essentially a paper transaction, purchasing options to buy and sell a commodity. He exercises one option in one year, to claim an ordinary loss for tax purposes, then exercises the other option the next year, to post a gain. The advantage is that for the intervening year, he has use of money that would otherwise have gone to IRS. The Tax Court is weighing how these transactions should be classified for tax purposes.

Tax protesters who challenge the legitimacy of the income tax itself account for more than 5,000 cases pending before the court.

Recently Lawrence Maguire of Detroit brought one such suit, challenging the tax on his \$21,293 annual income as an employee of the Grand Trunk Western Railroad Company. He claimed his income was not taxable because being paid money for labor represents an exchange of property of equal value, with no gain on either side. The court ruled curtly: "It is well settled that wages received in exchange for services rendered constitute taxable income. To say any more on this issue would represent a waste of this court's resources."

Singer thinks people are hooked on going to Tax Court, no matter what the issue.

"People still go in there trying to deduct their cats and dogs as dependents," he says. "Taxpayers are less afraid to fight than they used to be. Now they want to say their two cents' worth and tell the government off." □

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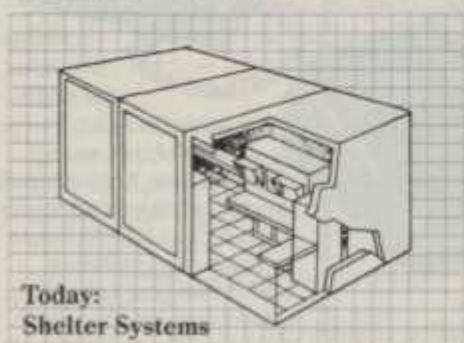
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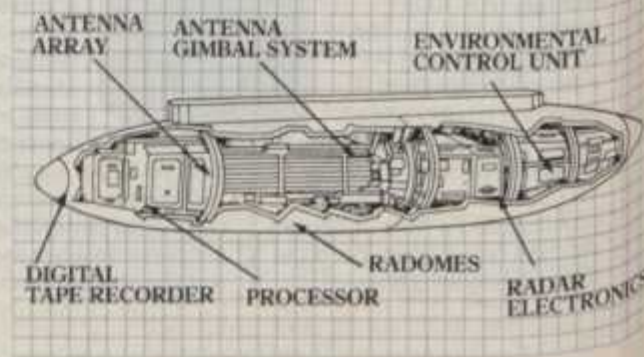
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And you will discover 85 good reasons to protect large, dead trees. Each bird listed here

Black-bellied whistling duck, Wood duck, Common goldeneye, Barrow's goldeneye, Bufflehead, Hooded merganser, Common merganser, Turkey vulture, Black vulture, Peregrine falcon, Merlin, American kestrel, Barn owl, Screech owl, Whiskered owl, Flammulated owl, Hawk owl, Pygmy owl, systems are disturbed. Often, the more adaptable cavity-nesters, such as starlings and Ferruginous owl, Elf owl, Barred owl, Spotted owl, Boreal owl, Saw-whet owl, Chimney swift, Vaux's swift, Coppery-tailed trogon, Common flicker, house sparrows, move into man-made structures. But others, such as bluebirds and Pileated woodpecker, Red-bellied woodpecker, Golden-fronted woodpecker, Gila woodpecker, Red-headed woodpecker, Acorn woodpecker, Lewis' woodpecker, will simply be driven away.

woodpecker, Yellow-bellied sapsucker, Williamson's sapsucker,

Traditional forest management removes old trees (foresters call them "snags") from woodlands. In cities, parks departments normally cut them down and haul them away.

Suburbanites often consider them eyesores and quickly prune them away. In fact, there aren't many places in America where these decaying relics are tolerated. And that's one of the reasons why so many cavity-nesting birds have disappeared.

nuthatch, Red-breasted nuthatch, Brown-headed nuthatch, Pygmy nuthatch, Brown creeper, House wren,

Their loss is more than an aesthetic undoing. The great majority of cavity-nesting birds

are insectivorous. They are important in controlling many nuisance insects, such as House sparrow, European tree sparrow, Black-bellied whistling duck, Wood duck, Common goldeneye, Barrow's goldeneye, Bufflehead, Hooded mosquitoes and flies—and they also help to protect forests by dining on gypsy moths and merganser, Common merganser, Turkey vulture, Black vulture, Peregrine falcon, Merlin, American kestrel, Barn owl, Screech owl, Whiskered owl, woodboring beetles. Furthermore, cavity-nesting birds tend to be resident species rather than migrants, so we benefit from their presence all year long.

Coppery-tailed trogon, Common flicker, Pileated woodpecker, Red-bellied woodpecker, Gila woodpecker,

Mother Nature recommends that large, dead and dying trees should be left alone

whenever possible. They are vital not only for birds, but also for other creatures which

Ladder-backed woodpecker, Nuttall's woodpecker, Arizona woodpecker, Red-cockaded woodpecker, White-headed woodpecker, Black-backed



ANIMALS, ANIMALS © Zig Leszczynski

depend on them—from squirrels and raccoons, to three-toed woodpecker, Northern three-toed woodpecker, Ivory-billed woodpecker, Sulphur the soil itself, which benefits as the tree gradually bellied flycatcher, Great-crested flycatcher, Wied's crested flycatcher, Ash-throated decomposes, the way Nature intended. So if you have flycatcher, Olivaceous flycatcher, Western flycatcher, Violet-green swallow, Tree swallow, one of these old-timers near your home, and it isn't Purple martin, Black-capped chickadee, Carolina chickadee, Mexican chickadee, threatening to fall and cause damage, let it be. Mountain chickadee, Boreal chickadee, Chestnut-backed chickadee

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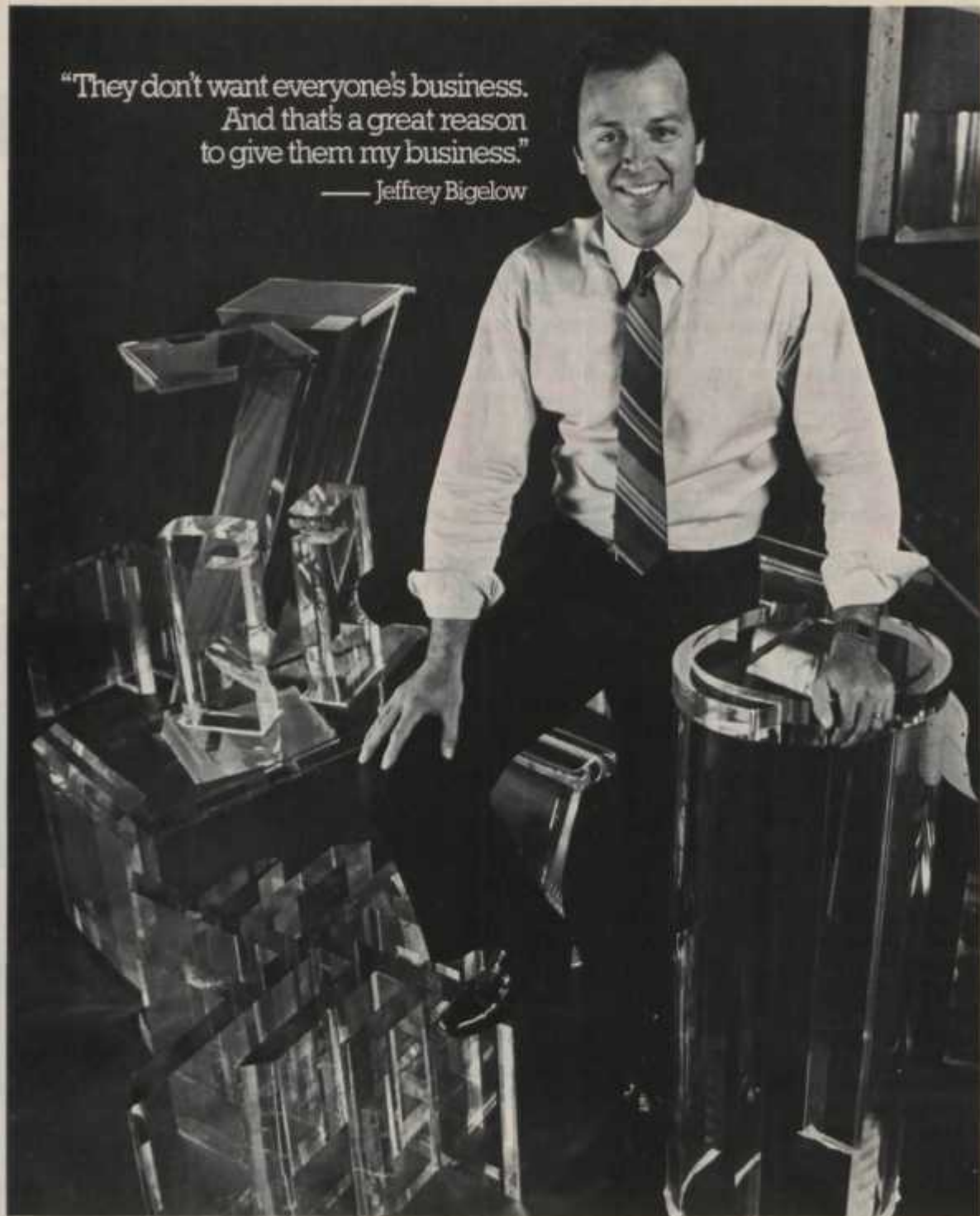
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Summer Remedies: Not So Hot

The truth about five ideas we grew up with.

By Gabe Mirkin and Mona M. Shangold

SUMMERTIME means fun and relaxation for most of us, but if we choose the wrong method of adapting to high temperatures, we can run into trouble. Many of us grew up with erroneous ideas about summer health and comfort. These are some of the myths that should be put to rest:

Myth No. 1: You should take salt tablets to replace the salt lost in perspiration.

Fact: Salt tablets are dangerous, even for people who exercise heavily and perspire profusely.

Compared with blood, perspiration contains proportionately more water than salt. As a result, the salt concentration of your blood rises when you perspire. Taking salt tablets raises this concentration even higher, thickening your blood and increasing the risk of blood clots. Such clots can cause heart attack, stroke, kidney failure, blindness and even death.

Occasionally, your body will crave salt if you need more than you have, and you can remedy that by eating salty foods like cheese, crackers and pretzels. However, most cravings for salty foods are not a signal of salt deficiency. Usually, you get more than enough salt in your normal diet. In fact, most of us consume far too much salt, and adding more to the diet may predispose some of us to develop high blood pressure.

Myth No. 2: Lying in the sun can prepare you for tennis or other hot weather sports by helping your body adapt to the heat.

Fact: Inactive heat exposure won't work. Heat acclimatization is the process by which your body adapts to hot weather. You want your heart rate and body temperature to remain lower during exercise in the heat than they would have before this adap-

tive process took place. You also want your body to begin sweating sooner as your temperature rises and to continue sweating at a faster rate throughout the exercise, in order to cool your body more.

The best way to adapt yourself is simply to do whatever you normally would—bicycle, jog, play tennis or paddleball or do any exercise that causes you to perspire. (Golf may not be active enough.) The adjustment period usually takes four to eight days.

If you plan to head south for a tennis vacation next winter, you can get ready for exercise in a hot climate. In the weeks before you go, wear excessive clothing when you run or do other exercise. The object is to make yourself as hot as you will be in the climate to which you are going.

Myth No. 3: Drinking cold water can cause stomach cramps.

Fact: Cold water is the best drink for replacing fluid lost in perspiration.

Water is absorbed mostly from the intestine, and the speed at which it is taken into your bloodstream depends on how fast it reaches your intestine. Your stomach contracts as soon as cold water reaches it. The contraction pushes the water into your small intestine, where it is immediately absorbed into your bloodstream. Because warm

water takes longer to leave your stomach, it is more likely to cause cramps.

Myth No. 4: Sitting in a cold draft from an air conditioner or open window can lead to a stiff neck or a head cold.

Fact: A cold draft can cause temporary physical discomfort but poses no medical hazards.

If you feel chilled from a cold draft, you may tighten certain muscles to avoid the air current or to facilitate shivering, which raises the body temperature and warms you. The tension in such muscles can lead to soreness.

Breathing dry air makes the respiratory tract more susceptible to infections, but air conditioning does not lower the humidity enough to create this problem. However, the cold air produced by air conditioning does increase mucus production, which many people mistake for a cold.

If a co-worker already has a cold, you will be exposed to the virus that can cause such an infection. Cold germs are spread through the air by sneezes and coughs. But cold air, in the absence of such a germ, will not infect you.

Myth No. 5: Placing an ice bag on your neck is the quickest way to cool off in the summer.

Fact: You can cool off more quickly by wetting your skin.

Evaporation of water on the skin carries away heat much faster than melting ice. So if you get too hot playing softball at the office picnic, run through a sprinkler or take a quick dip in the pool to make yourself comfortable again.

Perspiration on your skin works very well to accomplish cooling, too, as long as it is exposed to the air. Many synthetic fabrics prevent evaporation. At the office or outdoors, you will be coolest if you wear loosely fitting clothing of natural fabrics, such as cotton.

In a very dry environment, perspiration may evaporate so quickly that you don't notice. It is doing an effective job of cooling you nevertheless. □

Getting hosed down is a quick way to cool off when you are taking part in hot-weather athletics.



GABE MIRKIN, M.D., is a nationally syndicated columnist and broadcaster. MONA SHANGOLD, M.D., is assistant professor of obstetrics and gynecology at Cornell University Medical College.

NATION'S BUSINESS

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Federally Linked Lenders Under Fire

Interest rates charged by the Farm Credit System and similar organizations are a good deal for borrowers. But what about everyone else?

A YOUNG COMPUTER SPECIALIST and his wife, tired of city life, buy a farm home and a half dozen acres near a tiny hamlet in southwest Virginia. They pay for the property with a \$62,000 loan from a federal land bank.

In the Midwest, a farmer flies his private twin-engine Cessna to a city where the offices of another federally sponsored organization, a production credit association, are located. He negotiates successfully with the PCA for a \$1 million loan for his giant cattle and wheat operation.

Meanwhile, federally chartered banks for cooperatives are making loans to farmer-owned cooperatives. The borrowers range in size from a seed-and-feed enterprise serving a few dozen farmers to such monoliths as Goldkist and Land O'Lakes.

All of these lenders are part of the mammoth, federally created operation known as the Farm Credit System. And

all of the borrowers are paying lower interest rates than they would be paying if they had borrowed the money from, say, a commercial bank. It's a good deal for the borrowers, but—the Office of Management and Budget contends—a bad deal for everyone else.

The cooperative, farmer-owned Farm Credit System is the nation's largest agricultural lender. Farm Credit raises about \$100 billion in loan funds every year by selling securities. These securities are purchased by individuals and by institutions like commercial banks and credit unions.

Farm Credit's securities are not guaranteed by the federal government, and tax dollars are no longer used in the Farm Credit System's operations. But OMB believes that government ties give Farm Credit—like some other organizations—an unfair edge over its strictly private competitors in the nation's money markets.

Last year, OMB told President Reagan's cabinet council on economic affairs that "government sponsorship has provided these enterprises with advantages in the securities markets that completely private institutions do not

Bond salesmen sell \$100 billion in Farm Credit securities every year; the money raised is lent to farmers at below-market interest rates.



PHOTOS: DAVID GOLDBERG—BETH FARM CREDIT DISTRICT

have. This enables them to borrow at rates only slightly higher than those of the Treasury."

In other words, the Farm Credit System looks like a better risk than most private borrowers—almost as good a risk as the U.S. government. And since Farm Credit is paying less to borrow money, it can charge lower interest rates on the money that it lends to farmers—with a consequent increase in demand for Farm Credit loans.

With Farm Credit and several other quasi-governmental agencies sopping up so much of the available credit, strictly private borrowers must compete harder for the funds that are left in the lending pool. They must pay higher interest rates on that money, OMB argues, and those higher rates contribute to inflation and drag the economy down.

FARM CREDIT is the biggest target, but OMB has also been eyeing these organizations:

- The Federal National Mortgage Association. Widely known as "Fannie Mae," this is a federally chartered, shareholder-owned corporation that purchases mortgages from lenders, thus replenishing the lenders' supply of mortgage money.

- The Federal Home Loan Banks. As supervisors of the federally chartered savings and loan associations, these banks provide them with reserve credit through the sale of bonds.

- The Federal Home Loan Mortgage Corporation. Owned by the Federal Home Loan Banks, FHLMC purchases mortgages from federally chartered savings and loans and other institutions with federally insured deposits and resells the mortgages to investors.

- The Student Loan Marketing Association. It also is in the secondary market, purchasing student loans made under a federal program; like Fannie Mae and FHLMC, it provides lenders with cash to make more loans.

All of these organizations were brought into being by the federal government to meet specific needs—to provide funds for agriculture, housing and education.

For example, the Farm Credit System's federal land banks were created in 1916 because commercial lenders

were not making enough long-term loans to meet the needs of farmers and ranchers. The system was expanded in the Depression years of the 1930s through the creation of federal intermediate credit banks and production credit associations, both of which make short-term loans. The banks for cooperatives were formed to make loans to farmer-owned cooperatives.

Although these institutions began operating with federal dollars, all of that money has been repaid, and the Farm Credit System operates now on private funds alone.

Even so, Farm Credit contends that it must retain some ties to the federal government or it will be hampered in doing what Congress created it to do—provide an adequate supply of credit to farmers at a reasonable cost. If all of OMB's proposals were implemented, Farm Credit maintains, the effects would be devastating.

These are some of the 11 proposals that would—to use OMB's term—"privatize" the Farm Credit System (most would require legislation):

- The word "federal" would be dropped from the names of federal land banks and federal intermediate credit banks.

- Commercial banks could not invest more than 10 percent of their assets in Farm Credit securities. This would subject Farm Credit to the rule now applied to most other securities.

- Income from Farm Credit securities would no longer be exempt from state and local income taxes.

- Federal land banks and federal intermediate credit banks would lose their tax-exempt status.

- Farm Credit securities could no longer serve as collateral for U.S. Treasury deposits.

- Federal credit unions and savings and loan associations would be barred from investing in Farm Credit System securities.

OMB speaks of ending the "privileges" that the Farm Credit System enjoys, but Farm Credit officials counter that the "privileges" are needed to make up for restrictions on the system's ability to raise capital—for example, Farm Credit cannot accept deposits from its members.

Farm Credit's competitors in the money markets have not taken public stands on the OMB proposals.

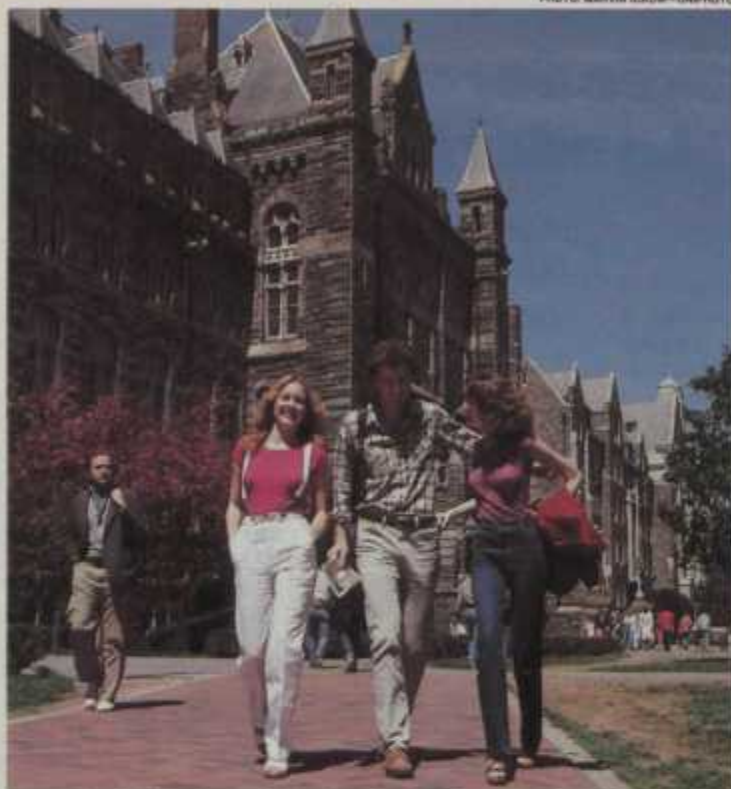
Privately, some argue that the effects would be mixed. Farm Credit might be hampered, but, on the other hand, the commercial banks would be, too, because of the new limits on their investments in Farm Credit securities.

ONE COMMERCIAL BANKER says that if Congress adopted OMB's recommendations, it would probably make up for that by giving Farm Credit new powers—permitting it to accept deposits, for example, or broadening its lending powers. Farm Credit might wind up as an even more formidable competitor.

OMB's proposals have already run into stiff opposition on Capitol Hill. Republican Sens. Howard Baker, Jesse Helms, Robert Dole and Pete Domenici asked Treasury Secretary Donald Regan, who heads the cabinet council on economic affairs, to abandon the proposals. OMB itself responded to a flurry of inquiries from Congress and the press by saying that its proposals were on the "backlist of back burners."

At the White House, the current thinking appears to be that the Farm Credit System and the other agencies simply have too many political allies to make an attack on them profitable. Farm Credit in particular would be a formidable foe.

The issue has not gone away; Regan did not disavow the OMB proposals as the senators asked. But as things stand, it seems a safe bet that Farm Credit and the other agencies will continue to enjoy their quasi-governmental status. □



The Student Loan Marketing Association, like Farm Credit, has government ties that help in selling its securities.

A PUSH-BUTTON ELEVATOR in a high-rise Kansas City, Mo., hotel may be an unusual place for a former professor of anthropology to find what he describes as an interesting group of primitive people.

But there they were—Cambodian dancers in native costume, riding up and down, unable to decide which floor was the lobby.

Phillip N. Hawkes, who directs the federal refugee resettlement program, helped the Cambodians find the right floor.

Hawkes, who taught at California State University in Sacramento, deals with thousands of "preliterate" political refugees who, like the Cambodians, are baffled by a different culture.

Costs of caring for such escapees from foreign dictatorships have unexpectedly ballooned. As a result, the Reagan administration has been cutting back on welfare services to them. It has been putting more emphasis on volunteer organizations that offer America's newest residents a chance to work hard to achieve security, as past generations of immigrants have done.

Between Hawkes' office in the Department of Health and Human Services and the bureau of refugee affairs at the State Department, U.S. refugee assistance programs during the current fiscal year are costing an estimated \$1.6 billion.

Ambassador-at-large H. Eugene Douglas, U.S. coordinator for refugee affairs, breaks down the costs this way:

- \$175 million for processing, transporting, training overseas and placing an estimated 98,000 new refugees in the United States.
- \$225 million in cash, medical and welfare assistance to these refugees—68,000 of them from Southeast Asia.
- \$300 million in aid to millions of refugees and displaced people who may never reach the United States.
- \$900 million in health and welfare assistance to the political refugees who have found asylum here in recent years. Most of those refugees are from Southeast Asia (nearly 630,000 since 1975), especially from Vietnam.

It is the size of that last expenditure—the \$900 million, most of it going to the Vietnamese—that is causing the resettlement program most of its problems.

There are, to be sure, numerous Vietnamese success stories in America. In Orange County, Calif., where many Vietnamese have settled, refugees operate more than 200 small businesses. About 500 Vietnamese-run restaurants and hotels, including the 300-seat International Club Restaurant in Houston and the 700-room Carter Hotel in New York City, flourish across the country.

NATION'S BUSINESS • JUNE 1983

WORK, NOT WELFARE

The High Cost Of Helping

Washington wants volunteer groups to do more to get refugees off to a fresh start.

By Seth Kantor

Vietnamese who fled political oppression now work as "shrimpers" at Seadrift, Tex.

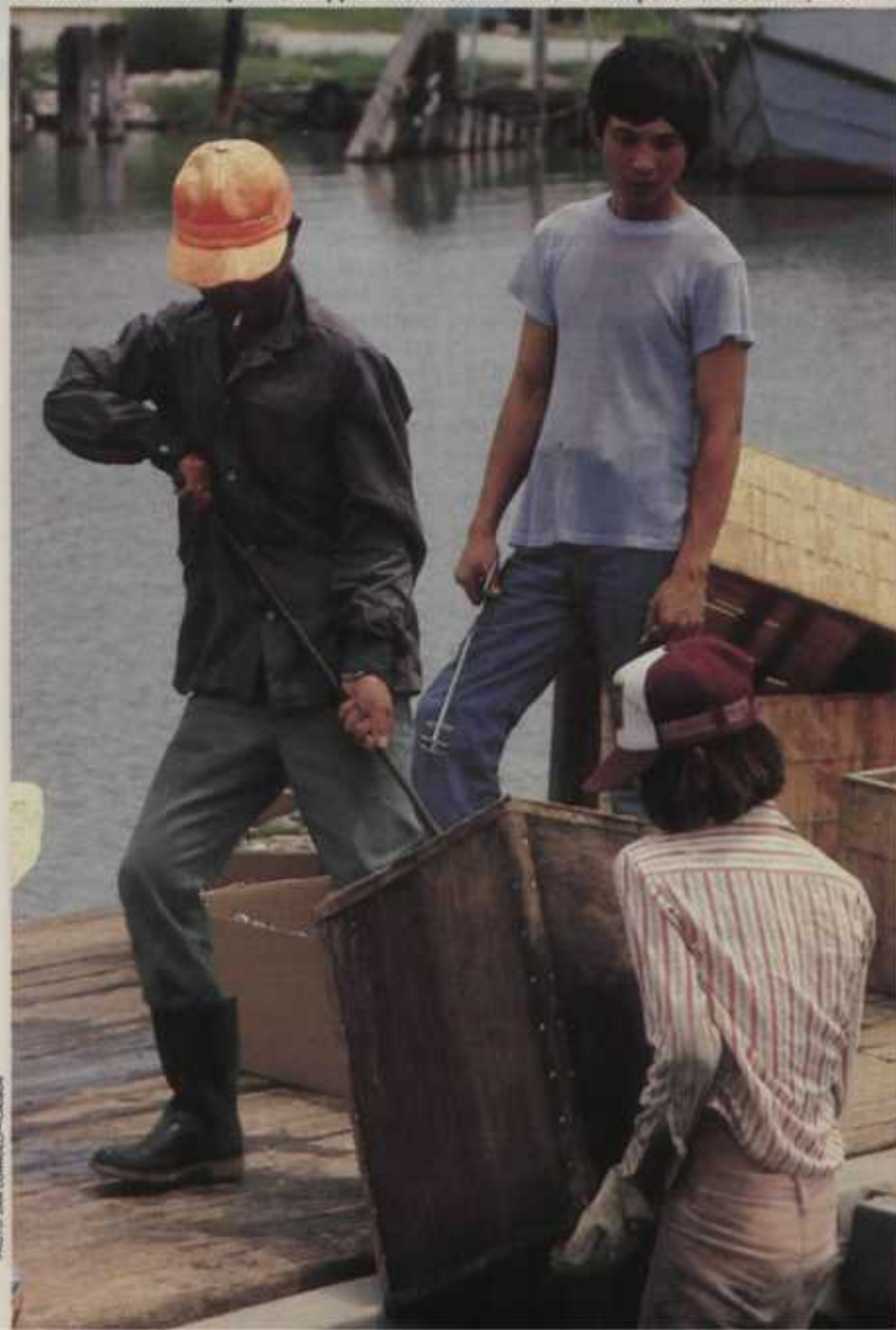


PHOTO: SAM CONNOLLY—LANSER

Tai Huynh: Connecticut Yankee



Tai Huynh escaped from a nightmare to a new life at Pitney Bowes.

For two years Tai Huynh, an electrician in the South Vietnamese town of Ha Tien, saved all he could in hope of escaping Communist rule. At last he bought a small boat. Early in 1979 he loaded 27 relatives into it and set out across the Gulf of Siam on a dangerous journey.

After 54 days the boat reached a Thai port. Thailand was a political sanctuary, but it turned out not to be safe. Waterfront pirates threatened to rape women and girls in Huynh's party until he bought off the thugs with his life's savings—a few gold pieces and some currency.

Eight months later Huynh and his family—his wife, their two young children and his wife's two orphaned nieces—were flown from a crowded, cheerless refugee camp in Thailand to America, thanks to a loan for the air fare from Church World Services in New York.

A committee at the First Presbyterian Church of Greenwich, Conn., had volunteered to sponsor the resettlement of a family of boat people in America. "We had sleepless nights of worry before the Huynh family arrived," says Arline Lomazzo, who chaired the committee.

Lomazzo recalls that the Huynh family appeared "smiling but hesitant" as they stepped off the plane at New York's Kennedy Airport late on a bleak December night. "Actually, we learned later, they were intensely frightened," Lomazzo says. "As we drove them to Connecticut,

they saw, for the first time in their lives, trees that had no leaves. They thought they had been sent to a kind of Siberia."

Huynh and his family had reason to be apprehensive about more than weather. They spoke no English and arrived with only the clothes they wore. However, church volunteers provided money, clothing and household goods to get them settled.

A month after his arrival, Huynh got a job in nearby Stamford at Pitney Bowes' postage meter assembly department, where "he did everything expected of him, and more," according to Carmine Braccia, a supervisor. Today Huynh, 31, handles intricate repairs on electronic meters. Pitney Bowes co-workers describe him as quick and dedicated.

He works days; his wife works nights at another company. They have two boarders in the \$89,000 home they are buying, and Huynh is driving a new car.

Through the church, which they attend though they remain Buddhists, the Huynhs have obtained loans at favorable rates to help them buy the house and car. They live frugally, however. They drive to Manhattan's Chinatown section once every two months to buy all their food in volume.

"A dream is coming true," says Huynh. One of the best parts was his first spring in Connecticut, when he saw that the trees really did have leaves.

Quang Tran was a welder in Seattle, Wash., eight years ago, and today he operates his own multimillion-dollar shipbuilding and repair company. Nguyen Huy Han began life in America in 1975 as a welfare recipient, and now in Pontiac, Mich., he operates a restaurant that has shared more than \$100,000 of its profits over the years by giving rebates to regular customers.

But many other Vietnamese have never gotten off welfare. Hawkes says refugees from other countries also frequently take advantage of the U.S. welfare system, but the real problem is with the Vietnamese, because there are so many of them and because of their attitudes.

"We have stressed to them that you don't get experience on welfare," says Hawkes. "You can work your way up in America.

But this is not readily done in Southeast Asia. They often don't understand you can get advanced training. They don't understand the relationship between employer and employee."

Hawkes explains that until April, 1982, refugees had access to special federal supplemental cash and medical assistance that amounted to \$10 a day for up to three years, on top of other welfare benefits.

Word got around the Southeast Asia refugee camps that the U.S. government would support immigrants for 36 months. So Hawkes' office cut the allowable period for supplemental aid in half, to 18 months.

As a result, many Vietnamese are bitter, says Hawkes. "They claim we've gone back on our commitment to them, especially after we lost their war."

DESPITE THE cutback in federal funds, financially troubled refugees still have access to state welfare programs and to such standard federally funded programs as Medicaid and Aid to Families with Dependent Children.

"We have been giving this group everything," says Hawkes. "Previous generations of immigrants had to sink or swim, but in our effort to be humane, worldwide, we've created a situation where we can't afford to be humane."

James Purcell, who directs the State Department's bureau of refugee affairs, agrees. "We were simply introducing those in a bad emotional state to a welfare system," says Purcell. "Our costs kept going up. People were not getting off welfare."

Adds Ambassador Douglas: "This

surge of availability of federal funds brought about a new industry, made up of consultants who were analyzing and managing the arrival of new refugees." Throwing money at the problem is not the solution, he says, "but voluntarism is peculiar to the United States, and it should be stepped up."

Purcell and Hawkes agree that both resettlement and adjustment should be in the hands of religious organizations and local communities.

Voluntary groups, including groups run by refugees who have become established in this country, have succeeded in helping many bewildered immigrants get a fresh start. The Indochinese Service Center in Harrisburg, Pa., has a membership of 900 refugee families, and only 15 percent of the adults are receiving any welfare. More than 50 area religious organizations provide financial contributions and voluntary services to the center.

AMERICA ABOUNDS with volunteer agencies, ranging from the Tolstoy Foundation to the Iowa Refugee Service Center, that help settle refugees in small and large communities. The Iowa center, sponsored by that state, resettled 2,353 members of a little-known group from Laos, called the Tai Dam. Virtually all the Tai Dam in the Free World have been resettled in France and in Iowa, where only about 250 require any cash or medical welfare aid.

The Tolstoy Foundation was established in 1939 by the youngest daughter of the famed Russian author Leo Tolstoy; these days it helps many Poles and Afghans. The federal office of refugee resettlement, headed by Hawkes, supplies matching grants of up to \$1,000 per refugee to the Tolstoy Foundation and to six other national volunteer organizations that aid in the resettlement of people who have fled political persecution in such places as Eastern Europe, Iraq and Ethiopia. During fiscal 1982 the agency provided \$7.6 million in matching funds.

Hawkes points out that many refugees are being transplanted to various states, especially to rural areas. One example: A church placed a Vietnamese man in a Kansas community, where he was unhappy, working in a slaughterhouse. The man had been a fisherman in Vietnam, and he began to thrive when the church relocated him to Louisiana, where he took up shrimping.

Volunteer groups in Chicago, Boston and New York have been teaching refugees the English language and urban American customs. At the State Department, officials believe similar programs may eventually help rural blacks, immigrant Mexicans and American Indians adjust to the tempo of life in the big city. □

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Mothers Work

The Other Prevailing Wage Laws

Construction pay rules in most states pick up where the Davis-Bacon Act leaves off.

THE TOWN of Lexington, Mass., was planning to install needed street curbing, and city officials thought they could get the work done for \$39,500. But then they learned that the city would have to pay three times as much. They decided they had no choice but to scrap the project.

Massachusetts requires that prevailing wages be paid by contractors when its cities and towns spend tax dollars on public works, with prevailing wages defined as wages set by collective bargaining agreements. The low bidder on the Lexington project had, however, used local nonunion wages in his calculations. When the bid was recalculated with union wages, it came to \$118,900—more than the city could afford.

The law that left parts of Lexington curbless was passed in 1914—17 years before Congress passed the Davis-Bacon Act. Davis-Bacon requires that prevailing local wages—in effect, union wages—be paid when federal money is spent on public works. All together, 37 states and the District of Columbia have prevailing wage laws governing the expenditure of nonfederal public funds.

Massachusetts' law is not the oldest; Kansas enacted the first one, in 1891, followed by New York in 1897, Idaho in 1911, Arizona in 1912 and New Jersey in 1913.

Arizona's Court of Appeals ruled in 1979 that the state's reliance on union wage rates was an unconstitutional delegation of legislative power, and Arizona is now considered one of 13 states that do not require the payment of prevailing wages. The others: Alabama, Florida, Georgia, Iowa, Mississippi, North Carolina, North Dakota, South Carolina, South Dakota, Utah, Vermont and Virginia.

Prevailing wage laws have long been attacked by business groups and other organizations concerned with the inflated cost of public works. To date, the Davis-Bacon Act has been the principal target, on the theory that if it were repealed, many state laws could be toppled in a domino effect. But now that is changing, as the magnitude of the prob-

lems caused by the state prevailing wage laws becomes clear.

A few years ago the Merit Shop Foundation, Ltd. (now an arm of the Associated Builders and Contractors) funded a survey of those laws. Armand Thiebolt, Jr., a University of Maryland faculty member who conducted the survey, says:

"We found an incredible lack of similarity in the laws... In purpose, in specifications, in application, in method of determining the prevailing wage rates, in enforcement procedures and in anything associated with them, the state acts varied tremendously."

(The laws vary tremendously even in length. Kentucky's is the longest, at 6,800 words, and Colorado's is the shortest, at only 98 words.)

Some laws contain odd provisions; for ex-

ample, amount that triggers the prevailing wage requirement. Maryland and New Hampshire have the highest thresholds, \$500,000 in each state.

Massachusetts is one of the states without a threshold. The contract amount "can be 10 cents" and the law still applies, complains Stephen P. Tocco, executive director of the Massachusetts/Rhode Island chapter of the Associated Builders and Contractors. Tocco's group is prominent in the Committee for Local Option on Contracts, a coalition whose goal is to overturn the Massachusetts law.

Last April in Boston, a state legislative committee held a hearing on a measure to repeal the prevailing wage law.

The hearing took place in a 600-seat auditorium packed with union members. After seven hours of often stormy testimony, the committee gave the measure an unfavorable recommendation, in effect preventing the legislature from voting on it.

"But we'll be back," promises State Rep. Stephen W. Doran of Lexington.

Says Tocco: "Precious funds that could be funneled to shore up vital city services such as police, fire protection and education are instead choked off from reaching those areas. The money ends up swelling an already bloated municipal construction bill."

A current example is a school library in Reading, Mass. The project is being funded locally, but the state's prevailing wage law applies, and so the

town must pay wages about as high as those paid in Boston. The project would cost around \$850,000 if local wages were paid, but instead will cost \$1 million.

So far, Massachusetts is the state where repeal of a prevailing wage law is being pursued most vigorously. But similar efforts seem likely in other states, as more towns like Lexington rebel against being told how they must spend increasingly scarce tax dollars. □

—Grover Heiman

Laws in 37 states mandate, in effect, that union wages be paid on construction projects financed with public funds.

Where Public Works Cost More



ample, Alaska's law allows the mandated prevailing wage to change during the life of a contract, making a multi-year contract a hazardous undertaking for an employer. In Massachusetts, the law applies not just to construction projects but to food services; firms supplying meat and meat products to state agencies must pay their butchers the prevailing wage.

Thirteen of the state laws do not have a threshold—a minimum contract



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The IRA Boom

As public investment increases in vehicles for retirement savings, the number of vehicles is increasing, too.

THE UNIVERSAL Individual Retirement Account, open to all employees, has been a resounding success since it was introduced on Jan. 1, 1982. The Internal Revenue Service says that more than 10 million Americans reported putting money into IRAs on their 1982 tax returns—three times more than for 1981.

According to Washington's Employee Benefit Research Institute, deposits in IRAs and Keogh accounts—IRA-type accounts set up by self-employed persons—rose from \$25.7 billion on Dec. 31, 1981 (when only employees not covered by employer pension plans were eligible) to \$56.2 billion at the end of last year.

IRA deposits at savings and loan associations, the leading IRA repositories, rose from \$9.2 billion to \$21.7 billion during those 12 months. Commercial bank deposits also more than doubled, from \$7 billion to \$18.1 billion. Deposits in mutual savings banks increased 85 percent, from \$3.4 billion to \$6.3 billion. IRAs comprised only \$200 million of total federal credit union assets at the end of 1981 but had jumped to \$900 million by the end of 1982. The mutual fund and insurance industries reported similar spurts.

Why have IRAs become so attractive? Primarily for tax reasons. Up to \$2,000 deposited annually in an IRA can be deducted from gross taxable income. The compound interest earned each year on IRA deposits is also tax-exempt until retirement.

Another strong consumer lure: generous interest rates, often in double digits.

At thrifts and banks, the conventional instruments are fixed- and variable-rate

IRAs tied to the rates on various certificates of deposit. Most institutions acknowledge that the fixed-rate IRA is still the most popular.

For example, Sooner Federal S&L in Tulsa offers a preferred-rate IRA that is a meld of short- and long-term Treasury bills and securities. But, says Ann Metcalf, vice president of advertising and sales promotion, customers still flock to the fixed-rate IRA because it offers stability.

At Continental Illinois National Bank, of Chicago, IRA assets tripled between March, 1982, and March, 1983, as customers became more familiar with IRAs, says Neal Halleran, vice president of personal banking services. Halleran believes that as the newness of IRAs wears off, the banking industry will have to offer a wider array of financial products in order to attract the IRA investor who is more willing to take risks.

SOME BANKS have already taken the plunge to appeal to such investors. In New York, Citibank is offering its IRA customers the opportunity to invest in portfolios of stocks and bonds through a series of commingled trust funds. Customers have the option of investing in a pool of common stocks, a balanced mix of equities and bonds, in-

come-generating securities or short-term money instruments. This innovative offering is being challenged in court by the mutual fund industry, which claims it is simply a mutual fund and as such violates the federal law separating commercial banking and investment banking.

Clark Gates, director of the benefit plans division of Dreyfus Service Corporation, a New York mutual fund firm, envisions banks' becoming clients of mutual funds that will create and manage the banks' IRA product lines.

Dreyfus has no plans to open storefront operations to attract IRA customers for its mutual funds, although Gates admits that many people "feel more comfortable walking into a local branch office than phoning." Fidelity Group, of Boston, on the other hand, is "trying to be accommodating to those who like to be able to walk into a building and put their money down," says Rab Bergelsen, director of corporate relations. Fidelity has such operations in Houston, New York and Boston and will open them soon in Chicago and one or more California cities.

Some large insurance companies also are aggressively promoting IRAs. Prudential, the nation's largest life and health insurer, sold more than 350,000 IRAs last year, generating \$508 million in premiums.

Congress has been impressed by the enthusiasm for IRAs, to the point that some members have offered bills that would expand the use of IRAs and authorize similar accounts for purposes other than retirement.

Rep. Henson Moore (R-La.) has introduced a bill that would permit additional nondeductible contributions to an IRA of up to \$2,000 a year, plus another \$8,000 over the life of the account. The additional contributions could not be deducted from gross taxable income, but the interest earned by the additional contributions would be tax-exempt. The bill would allow an individual to withdraw up to \$10,000 without penalty from an IRA for purchase of a house or payment of college tuition. (Withdrawals are now taxed as ordinary income, with a 10 percent penalty added on.)

In the Senate, James McClure (R-Idaho) has offered a bill that would permit an individual to deposit up to \$1,500 a year (\$3,000 for a couple filing a joint return) in a separate IRA earmarked for buying a home. Account contributions would be eligible for a 25 percent tax credit.

Other bills have been introduced—and more can be expected, as IRAs become an increasingly popular and accepted feature of the American financial landscape.

—Mary-Margaret Wantuck

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Static Over Deregulation

The FCC thinks radio stations should be ruled mainly by the marketplace; not everyone agrees.

WITH A PUNCH of a car radio's button or a turn of a dial, radio audiences send a clear message to station operators: Give us what we want to hear, or we won't listen. That basic fact of the auditory marketplace is at the heart of a national debate over radio deregulation.

In 1981 the Federal Communications Commission began lifting regulations it considered unrealistic, given that the radio market is fiercely competitive and provides a great diversity of programming.

There was no need to limit the time given to commercials, the FCC said, because listeners would not tolerate stations jammed with advertisements. Neither should stations be required to offer specified amounts of news and public affairs shows, the commission maintained, since listeners now expect programming about local issues.

"The occasional guy who departs from the responsible operation of his radio station will fall prey to competitors who do it right," says Donald Wear, general manager of WHP in Harrisburg, Pa.

Wear asserts that neither WHP nor any of the other 9,000 radio stations in the United States should be required by the FCC to devote hundreds of hours of staff time—and thousands of dollars—to proving they meet standards that the marketplace already enforces.

"Most broadcasters know that the only way to be successful is by immersion in their communities," Wear says.

The FCC also eliminated the requirement that a radio station's operator demonstrate that community leaders are being canvassed to determine whether the station is providing the quality of programming they expect.

In addition, the FCC:

- Dropped the requirement that a station keep a time log of everything that was broadcast.
- Simplified the procedures for renewing a station's operating license.
- Stopped requiring stations to file annual financial reports.
- Made it easier to sell a radio station.

Opponents of deregulation, who fear it will harm program quality, filed lawsuits challenging all of the FCC's deregulatory steps, and broadcasters appealed to Congress to validate the FCC's decisions by making them law. After two years of wrangling, the Senate on February 17 approved legislation that National Association of Broadcasters lobbyist Carol Randles calls "wonderful."

The Senate bill is built on the principle that radio stations and other sources of information are plentiful enough to ensure that the public interest can be protected without government interference. It basically codifies the FCC's deregulatory actions.

Key House members are still skeptical about the need for such a bill. Rep. Timothy Wirth (D-Colo.), chairman of the Telecommunications Subcommittee, has said, "The legislation is not life or death for the broadcasting industry and is not now critical to bringing the public a broad diversity of programming." Wirth says he is open to a compromise that will encourage more diversity.

Randles says, however, that competition is already so intense that "radio is outperforming what

the FCC regulations required" before deregulation got under way. She adds: "There are always bad apples, but the vast majority of broadcasters do their job."

Not everyone agrees. The FCC approach to deregulation ignores essential interests of the listeners, warns Sam Simons, director of the Telecommunications Research and Action Coalition, a group dedicated to promoting public access to the media.

"Radio entrepreneurs go for the bigger buck and the cheapest way to get it," Simons insists. "There is no garden of great blooming information outlets. The public is being ill-served in so many ways in programming. Now there is no obligation to be concerned about local news and there is very little quality public affairs programming."

Roberta Weiner, a member of the House Telecommunications Subcommittee's staff, says some congressmen are concerned that minorities are underrepresented in many smaller markets. The

PHOTO: DAVID FRAZER



PHOTO: DAVID VALDES



Is a listener's hand on the dial the most powerful kind of radio regulation?

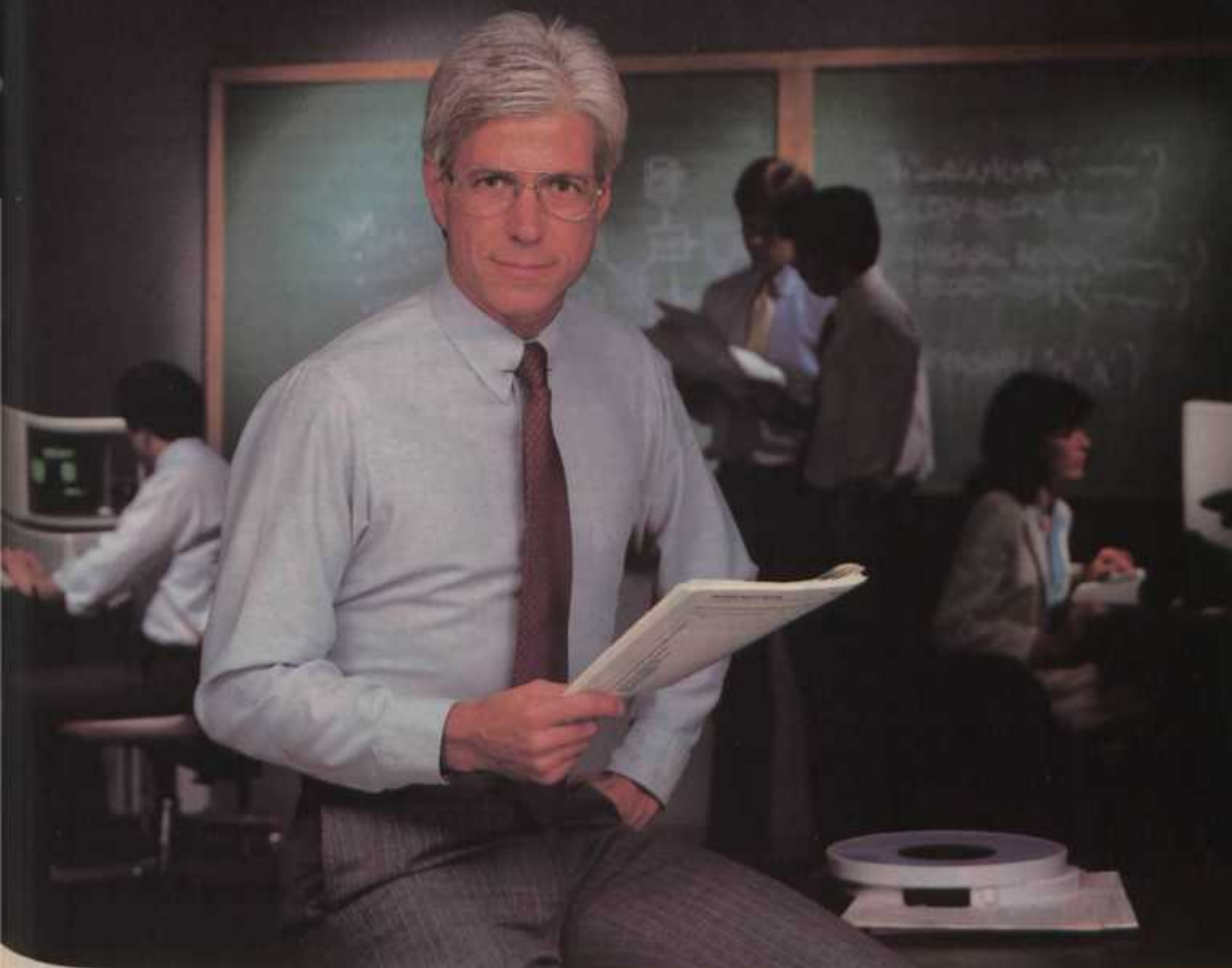
solution, she says, may lie in drawing a line between markets that are truly competitive and those that are not. Perhaps, she suggests, FCC regulations should not apply to urban areas with a dozen or more stations, but only to smaller markets where diversity of programming will not exist unless the FCC requires it.

Unless some such compromise is reached soon, the now-smoldering issue of radio deregulation may flare up when the House turns to it later this year.

—Henry Eason

NATION'S BUSINESS

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Where I Stand

Federalize Workers' Compensation System?

Employer costs for workers' compensation have been soaring (see page 30). But there are proposals to raise them even further, by federalizing the existing system of state programs that require payments in cases of job-related injuries or ailments.

Under a federalized system, an employer might have to pay as much as \$525 a week in a workers' comp case. In most states—and depending on the state—average costs would rise between 200 and 500 percent.

Labor unions say that, generally, workers' comp laws are now inadequate. In what is viewed as a first step toward broader federalization, they seek legislation to federalize payments for occupational disease.

Opponents of federalization say that states are in the best position to determine the proper amounts of workers' comp. As for occupational illness, they note that all states provide coverage now—but the worker must be disabled to collect benefits. They add that federalization undoubtedly would force payments for nonoccupational health problems.

Should the workers' compensation system be federalized?

☐ Yes ☐ No ☐ Undecided

Employer Health Coverage For Laid-Off Workers?

Against a backdrop of some 11 million Americans unemployed, a move is afoot to extend health insurance to protect the jobless.

Congressional bills would require employers to provide an "open season" in which all employees could get family coverage. Also proposed: state health insurance pools, financed by employer and employee taxes, and a requirement that laid-off workers be carried in employer insurance plans for three months or more.

It is argued that such steps are needed to help people who otherwise would lack adequate medical care.

Business witnesses, however, see no justification for a new federal program whose burdens would fall heavily on small firms.

They point out that nearly all employers give some health coverage for 30 days or more to laid-off workers and that most employers provide for conversion from group to individually paid-for coverage. Also, they say, there are other sources of help, including family members' insurance and, for the truly needy, Medicaid.

Should employers have to finance health insurance for the jobless?

☐ Yes ☐ No ☐ Undecided

Lift the Ban on Work At Home for Profit?

Experimenting employers report big productivity gains from certain workers who stay home and communicate with their offices by computer.

Such experiments are only the beginning. But if labor unionists have their way, the future of work at home will be strictly limited. Forty-year-old Labor Department regulations ban home work on a piecework basis in six garment-making industries. (A ban on such work in a seventh was lifted in 1981.) The International Ladies Garment Workers Union is pressing for a broad expansion of the ban.

Businesses want the ban lifted.

Union leaders say housewives or others who agree to be paid by the piece for embroidery, for example, are subject to exploitation without minimum-wage or overtime protection.

Businesses say that such people are independent contractors who are given a chance to obtain income conveniently and that the amount of income depends, properly, on competitive forces. The real union motives are protection of high-cost jobs and desire for more dues, businesses charge.

Should the ban on work at home for profit be lifted?

☐ Yes ☐ No ☐ Undecided

Verdict: Reform Federal Pension Systems

Should federal pension systems be reformed? NATION'S BUSINESS asked readers that question in April. The answer, by a margin of 10 to 1, was yes.

Proponents of reforms argue that the pensions are overgenerous—to the good fortune of retirees and the misfortune of the taxpaying public. The amounts workers in the primary civil service retirement system pay toward their pensions cover only a fraction of huge and increasing costs. Also, federal pensions, even when inflation is raging, rise with the consumer price index—while most private pensions do not—and often go to relatively young retirees.

Opponents of reforms decry what they say is a tendency to make whipping boys out of civil servants. They argue that government needs its pensions to recruit good careerists.

Since the question was asked, Congress has passed legislation to put new federal workers in the Social Security system. It has not acted, however, on administration proposals for other reforms.

NATION'S BUSINESS • JUNE 1983

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How To Keep A Firing From Backfiring

Here are 10 ways to reduce the risks of a lawsuit.

By Peter M. Panken

TIME WAS when firings were financially painful only for employees. Increasingly, however, terminated employees are suing—and collecting from—former employers. Whether an employee can recover depends on who was fired and why, and on which law applies.

Federal law and many state laws prohibit terminating someone because of race, sex, national origin, physical handicap, union activity or even age (between 40 and 70 under federal law).

PETER M. PANKEN, a partner in the New York City and Washington law firm of Parker Chapin Flattau & Klimpl, specializes in representing management in labor and employment law cases.

Aggrieved employees can file charges with state human rights agencies and the federal Equal Employment Opportunity Commission. If these agencies don't help, an employee's lawyer can bring suit.

In some states—New Jersey, California and Michigan among them—the courts can order reinstatement, back pay and sometimes even damages for emotional injury, if they decide that an employee's discharge violated public policy. For example, employees have won suits on allegations that they were fired for filing workers' compensation claims, serving on juries or refusing to participate in practices they considered unprofessional, unethical or illegal.

In some states, like New York, if the terminated employee contends that a

personnel manual or somebody in authority said that employment would be "permanent" or that termination would be only for "just cause," the employee is entitled to a trial to determine whether the reason for the termination was sufficient. In a few states, like Massachusetts and New Hampshire, even if nothing is said in the manual there is an implied obligation to act in good faith in terminating employees.

ALL THIS MEANS that every termination of an employee or group of employees has to be treated as if it could be attacked in court. Once in court, the employer must present a reason for the termination that is not inconsistent with any statute or public policy. During that litigation all the company's records on this employee and others in similar situations can be brought into court and will have to be explained to a judge or jury whose decision will turn on some notion of fairness and justice.

The time to defend against such termination suits begins before an employee is hired. Most employers do not realize that when they hire someone, they enter into a contract of employment with that person. That contract may be oral (typically, what is discussed are wages, hours and extra benefits like medical insurance, holidays and vacations), but it is nevertheless binding on the employer.

If an employer wants to retain the prerogative of terminating an employee for any reason (other than those that are contrary to a statute or, in some states, to public policy), that had better be spelled out in writing and signed by the employee before or at hire. The best place is in a signed employment application.

Great care should also be taken to review personnel manuals, employee bulletins and other documents that state terms of employment.

Just a few months ago, New York's highest state court, the Court of Appeals, held that a statement in McGraw-Hill's employee manual that employees would be discharged only for "just and sufficient cause" became a term of employment that could form the basis of a lawsuit by someone the publishing firm fired. McGraw-Hill will now have to prove at trial that the reason for termination fits within the vague "just and sufficient cause" standard.

An employer should consider the risks before terminating. It is most important to be sure that there is a good, unassailable business reason—such as a documented record of poor performance or excessive absenteeism—for any terminations. That reason should



ILLUSTRATION: TONY FITCH



be reviewed and established before the employee is let go, not after.

(Should an employee be discharged for being a "troublemaker"? One expert gives a surprising answer. See page 76.)

A typical recipe for a costly lawsuit involves a senior employee who received wage increases every year and whose personnel file contains no written warnings. One day someone decides that a formerly acceptable level of performance is inadequate. So the employee is unceremoniously let go. If the employee had been warned of substandard performance and given a reasonable opportunity to improve, the employer would have a better case.

Another invitation to a lawsuit occurs when there are several employees with a chronic problem (like absenteeism), but the older employee is the first one fired.

In an age discrimination suit, the plaintiff will show that younger people with similar absenteeism problems were not terminated, leaving a strong inference that the real reason for termination was age. But if those with the worst absenteeism records are terminated first, especially after warnings, it will be harder to prove that age is the underlying reason for termination.

LAYING OFF a group of employees for economic reasons is certainly termination for good cause. But that does not mean that individuals who are laid off will be unable to prove they were selected because of their age, race or sex. An employer selecting on merit must have proper proof.

Under most discrimination statutes, layoffs based on a bona fide seniority system are acceptable. But once the employer begins to depart from the rule of last hired, first fired, the selection process can be subject to strict scrutiny.

What, then, should you, as an employer, do before, during and after ter-

mination to protect yourself against agency administrative proceedings and lawsuits?

Here are 10 ways to reduce your risks:

1. Before hiring, review documents, like employment applications and personnel manuals, that are likely to be involved in a termination lawsuit. Be sure that they say what you want them to say and that you are prepared to live with them in litigation.
2. Be sure no one in authority makes promises you do not intend to keep.
3. After hiring, establish clear, written work rules and indicate that infractions can lead to discipline and discharge. Be sure every employee receives a copy and signs for it.
4. If discipline is necessary, deal with the worst offenders first.
5. Use progressive discipline—that is, give an employee an opportunity to correct unacceptable behavior. This might include a written warning or two acknowledged by the employee and perhaps even a suspension before termination for less serious offenses.
6. Get the employee's side of the story in front of witnesses and, if possible, in writing signed by the employee. Then, check it out before you act. It is best to recognize factual weaknesses in your case before it is too late. If you really don't want the employee on the payroll

until the facts are clear, suspend the employee during your investigation.

7. Be consistent in discipline—similar infractions should receive similar punishment.

8. Review the employee's personnel file with an eye to fairness. Ask yourself how you would react if you were on an impartial jury. For example, employees with longer seniority merit more opportunities to correct their actions than newly hired people.

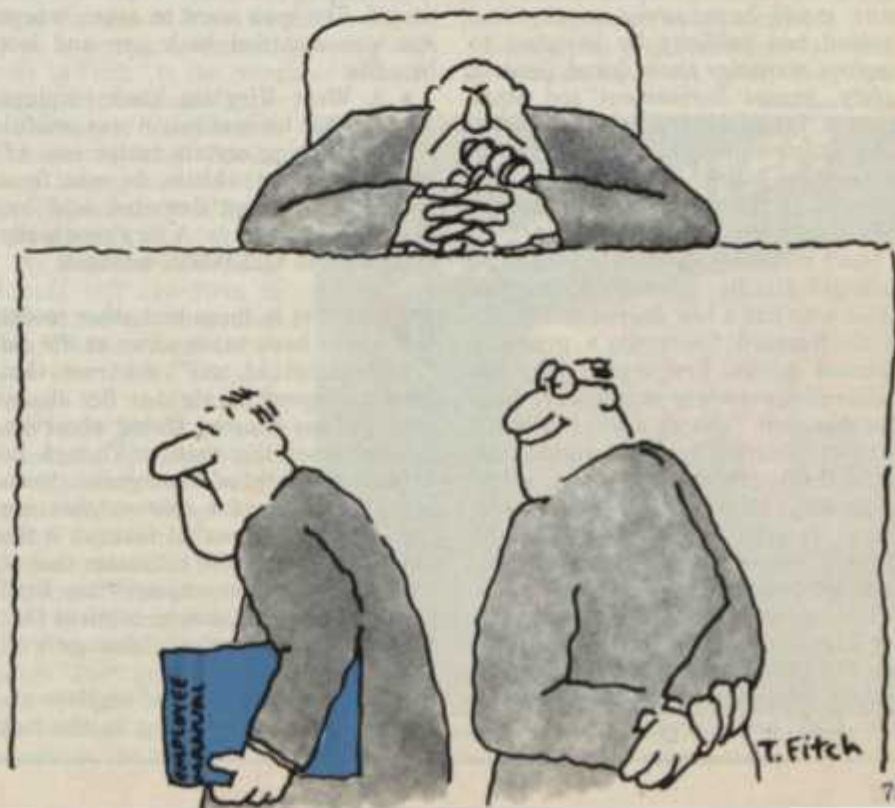
9. If you must fire someone and you think you are going to have a problem with the termination, consider buying out the claim with severance pay. Not the severance pay or vacation pay that you give to anyone who is terminated, but additional compensation in exchange for a release from any claims that might arise from the termination.

10. Don't stand in the way of the terminated employee's future employment. An employee who has a new job is less likely to bring a lawsuit against a previous employer. Bad references can lead to expensive lawsuits. But good references are an admission that there was not cause to terminate. So, adopt a policy of simply confirming dates of employment.

To these general rules add one more: Know which laws are applicable in your jurisdiction. The laws are changing quickly and often vary from state to state. □



To order reprints of this article, see page 67.



Are "Troublemakers" A Blessing in Disguise?



A COMPANY that is quick to fire a "troublemaker" may lose one of its most valuable—and loyal—employees, contends David W. Ewing, who has spent 10 years researching employee rights and management prerogatives.

In his new book, *"Do It My Way or You're Fired!"* (John Wiley & Sons), Ewing shows how company after company could have saved money and avoided bad publicity by listening to employee warnings about fraud, product safety, sexual harassment and other matters. Ignored by superiors or told to keep quiet, some of the employees in desperation took their cases to elected officials or the press. Almost always they were fired.

Don't corporate dissidents tend to be radicals? Hardly, answers Ewing, an editor who has a law degree and teaches at Harvard University's graduate business school. Frequently, they are middle-of-the-roads or conservatives. The dissident "almost always believes in rules of order, property rights, stability, thrift, private investment, industriousness," he writes. Often, such employees become objectors or "whistle blowers" out of concern for the company's well-being.

Among examples Ewing describes:

- Three engineers were fired by the San Francisco Bay Area Rapid Transit District after criticizing the organization. They had warned superiors that

BART's approach to planning could lead to system failure and put riders in danger. The engineers sued; subsequently BART proposed an out-of-court settlement that was accepted.

- After refusing repeated sexual advances by her boss over a period of several years, a Denver woman was fired despite an excellent performance record. The case went to court, where she was awarded back pay and lost benefits.

- A West Virginia bank employee learned that his institution was willfully overcharging certain customers. After blowing the whistle, he was fired and rehired, then demoted and harassed in other ways. A jury eventually awarded him \$125,000 in damages.

DECISIONS in these and other recent cases have eaten away at the old "employment at will" doctrine that gave employers the right to fire at any time for any reason, Ewing observes. He welcomes the change. Though he defends the right of managers to manage and to fire for reasons that are just, he emphasizes that fairness is the issue. He agrees with estimates that at least half a million employees are fired unfairly each year, and he cautions that managers can no longer "manage with abandon."

"The number of cases of employee objectors has been zooming in the last

year," he said in an interview, adding that the number of cases has increased tenfold in the last three or four years. He predicts, in his book, that dissidence will continue to grow.

One reason is that there are more professional and technical employees, such as chemists and engineers, whose "irreverent, freely inquiring spirit" often conflicts with "the more committed, more channeled spirit of the managerial mind...."

"What is more, today the professionals are becoming increasingly 'professional'; their allegiance to their disciplines and professional associations is becoming ever greater, overshadowing more than before their allegiance to any employer."

Corporate dissenters do have obligations, Ewing says. Among them: concerning themselves with appropriate issues, such as improprieties or tangible dangers; analyzing the facts carefully before making an accusation; and, if possible, confining their protest to corporate channels.

What can corporations do? They can set up procedures to hear employee complaints promptly and fairly. And they can encourage early criticism of a new product or process; doing this not only "bestows more dignity on employees," Ewing notes, but can also help avoid costly errors.

—Sharon Nelson



Applying silk-screen techniques to electronic keyboards, Terry Dorman launched a fast-growing high-tech firm.

A New Kind Of Keyboard Virtuoso

Many hot young companies have sprung up to meet the needs of high-tech industry. One of them started out as two teen-agers' screen-printing business eight years ago. Dorman Bogdonoff, of Andover, Mass., is a multi-million-dollar enterprise that today employs 135 people and makes membrane keyboards—touch panels—for electronic machines and games.

President Terry Dorman, 27, says that when he graduated from Phillips Academy in Andover in 1975, he was tired of school and had decided to take a year off before tackling college. He had enjoyed silk-screening courses in school. So, "with the intent of making a little money," Dorman recalls, he and a friend, Peter Bogdonoff, began silk-screening posters and T-shirts in the basement of Dorman's parents' home in Boxford, Mass. With a little success under their belts, Dorman says, they "decided to take a full-fledged plunge into the business we are in now"—applying silk-screen techniques to the electronics industry.

To move the company into its primary product in 1977, Dorman raised \$300,000, backed by loan guarantees from his parents. Sales that year were \$90,000. Last year they were \$5 million, and Dorman is looking for a minimum "in the \$7 million to \$8 million range"

this year. Customers have included Xerox, ColecoVision, Texas Instruments and Magnavox.

A membrane keyboard is a kind of high-tech "sandwich." Circuits of silver or other conductive metals are printed on the insides of top and bottom layers of thin plastic. These two layers are separated by a thin layer of insulating material, which has holes in it where the circuits are.

A touch of the finger forces the top and bottom layers together, closing a circuit. On top of the "sandwich" is a colorful overlay with printed keys indicating where the circuits are. Such flat keyboards are in common use on microwave ovens and fast-food restaurant cash registers.

Membrane keyboards are more reliable than their mechanical counterparts because they have few or no moving parts, Dorman says, adding that they also have a longer life, making them more cost-effective.

But Dorman Bogdonoff is not a one-product company—it is oriented to new product development, Dorman emphasizes. One new product is Touchscreen, the firm's trademark for its version of a transparent keyboard. Touchscreen is basically a membrane keyboard, complete with conductors, but you can see right through it. It can be placed directly on a computer screen, allowing the user to "talk" to the computer without using a traditional type-writer-style keyboard, Dorman explains. Boeing is making use of the Touchscreen in its P3 military aircraft.

By the time Peter Bogdonoff left the firm in 1978 to pursue other interests, Dorman recalls, "we had started to build a name." So the company still bears the Bogdonoff name. In the high-tech world, where so many names end in "ix" or some other futuristic sound, Dorman thinks "Dorman Bogdonoff" stands out.

He is thinking of taking the firm public in a few years. Then again, maybe not. "Whatever is done has to make sense for the company," he says.

Adding Dental Care To Shopping Lists

Three factors make their businesses successful, many retailers claim: location, location and location.

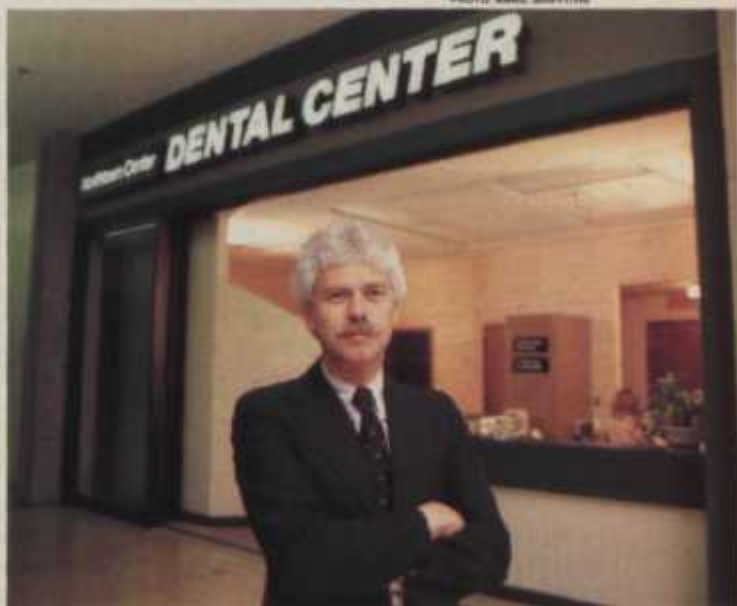
So it is with a dentist's office, contends Curtis O. Gudmundson, a Minneapolis entrepreneur. He is convinced that customer convenience is the key to caring for the nation's teeth profitably—so convinced that he and his longtime partner, dentist William D.C. Mattison, have started Retail Dental Centers, one of the firms pioneering in dental franchising. (When the American Dental Association last looked in 1982, a spokeswoman said, it found only eight franchising systems operating dental offices in 13 states.)

RDC's guiding idea: put the franchises in busy shopping malls, where they benefit from drop-in traffic.

Many dentists' biggest problem, says Gudmundson, 37, is lack of patients. Yet, he points out, half of all Americans do not get regular dental care. He says the "sheer size of the market and an abundance of dentists" combined with two other factors to lay the groundwork for RDC. The other factors: in 1977, the U.S. Supreme Court lifted restrictions that once kept dentists and other professionals from advertising. And in recent years dental insurance has become more widely available.

In addition, Gudmundson says, dental schools have not given their stu-

PHOTO: SARA SHAPIRO



Curtis Gudmundson says shopping malls' foot traffic will make his franchised dental centers thrive.

PEOPLE IN BUSINESS

dents adequate education in how to manage their practices. This means that many dentists can use the business expertise that RDC provides.

Before launching RDC in 1980, Gudmundson, an economist by training, worked with Mattison, 52, as a dental management consultant. They found that the location of an office made a big difference in how quickly a dentist's business grew. "Foot traffic, visibility and exposure are important to a practice," says Gudmundson, who is RDC's president. A traditional dentist may get 10 to 15 new patients a month, he observes, but an RDC center, with its retail environment, gains 75 to 100.

The approximate cost of a franchise is \$100,000. The typical buyer: an established dentist who purchases it as an investment. He continues his practice while other—often younger—dentists staff the franchise. Identified as "RDC Dental Center" in a mall, a franchise can bring in as much as \$800,000 a year, Gudmundson says.

RDC has sold 13 franchises so far—nine in Minneapolis, two in Chicago and two in Kansas City—and negotiations are under way for one other. Gudmundson expects RDC, which he says will start turning a profit for the first time in the fall, to go public this year, and he hopes to have 200 to 300 franchises sold in the next three years.

Patients' fees are 10 percent to 25 percent lower than average, Gudmundson says, but RDC is selling convenience, not discount dentistry. The offices are open 70 hours a week, like mall shops. Parents can shop in the mall while a youngster is in the dentist's chair. When the child is ready, Mom or Dad is paged on a beeper provided by RDC.

Gudmundson notes that dentists, instead of following retailers when they moved from downtown centers to suburban malls, relocated in out-of-the-way "professional" buildings. Now, he says, "dentists are getting back into the retail section where they belong. That is where the people are and that's where health care should be delivered."

The Grey Flannel Maternity Suit

"Pregnant Executives." These words, in big type in little advertisements in a number of business publications, have been catching the eye of a new market. The ads are pitching Mothers



Rebecca Matthias' firm is enjoying a high demand for its executive maternity clothes. Here, Matthias wears a leading design, a tailored business suit.

ers Work, a Philadelphia mail order firm offering "classic business" maternity wear.

President Rebecca Matthias discovered the market firsthand two years ago when she needed a wardrobe that would carry her through her first pregnancy and her responsibilities as finance director of SOLVation, Inc. (for solving automation problems), a small computer company in Waltham, Mass. "The stores where I usually shopped did not carry maternity clothes, and the maternity shops did not carry business clothes," she says. She realized that increasing numbers of women shared her predicament.

Matthias, 30, launched Mothers Work early last year, several months after son Isaac was born. Her husband, Dan, who also worked at SOLVation, quit his job to become Mothers Work's marketing vice president, and the couple moved their business to Philadelphia in August. The new location offered them

the suppliers they needed plus a chance to be near Rebecca's family.

She has since hired her father, Leon Crane, to handle suppliers. An engineer, he had just retired from his sons' real estate business. "I gave him about two weeks to get bored, and then I snatched him up," says Matthias.

Mothers Work's first catalog was really a test. After it was published, the firm contacted a selection of women who had ordered it to find out whether its offerings met their needs. "They wanted more suits," Matthias says.

The latest catalog, more on target, was published in January, and another is scheduled for July.

"The Suit," a V-neck jumper with a tailored jacket—priced at just over \$200—generates the most interest, Matthias says. But the best-seller is a \$57 navy crepe dress with a red silk tie. "It is the kind of dress that can be worn in just about any climate, just about anywhere," Matthias explains.

Mothers Work designs about half the garments and contracts them out for manufacturing. The rest are bought from clothing manufacturers.

The company has outgrown the three-unit townhouse it shares with the Matthias and Crane families, and Matthias is searching for a warehouse where Mothers Work can store finished garments and raw material.

"We began to make a profit for the first time early this year," she says, adding that she expects the year as a whole to be profitable. Matthias is shooting for the \$1 million mark in sales this fiscal year.

The firm has grown so fast, she says, that it needs to stabilize. Her goal now is "to slowly expand and have a very profitable company."

Matthias had a second baby, Joshua, in April. This time around, she didn't worry about having the clothing she needed. She wore her company's products. □



CONGRESSIONAL ALERT

Issues That Could Affect Your Business

... and what you can do about them

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
FY 1984 Budget/Taxes	Rate and strength of economic recovery will be set by congressional actions on first budget resolution and appropriation bills.	Members of the House and Senate: Oppose tax increases, keep third-year tax cut and indexing, use budget and appropriations processes to cut federal spending.
Immigration	Proposed Senate bill would place undue paper work burden on small business; House version makes paper work optional.	Senators: Support language, similar to that contained in House bill, that removes paper work burden on small business.
Natural Gas Deregulation	Only total decontrol would lead to lowest prices and adequate supplies. Also, current law has restrictions on gas use and price that are unfair to businesses as consumers.	Senators, House Energy and Commerce Committee: Urge support of total deregulation of price and supply by a fixed date.
Hazardous Wastes	Questionable regulations would raise costs to small businesses, result in increased litigation, require excessive paper work without any increased environmental benefit.	House Energy and Commerce Committee and Senate Environment and Public Works Committee: Require study of certain small business classifications, seek more equitable approach.
Bankruptcy	Consumers with anticipated future incomes would find filing of bankruptcy more difficult. Those who can pay debts would face increased pressure to do so.	House Judiciary Committee: Support effort to halt abuse of national bankruptcy laws, require code to include future income provision.
Export Administration Act	Renewing and strengthening this important trade act would facilitate export sales, put Americans back to work, improve balance of payments.	Members of the House and Senate: Support attempts to remove ambiguities in current law, reduce unintended costs to U.S. economy, sharpen focus of export controls.
Health Insurance for Unemployed	Legislation would add billions of dollars to yearly labor costs, weaken our international competitive position, force many firms to reduce insurance to current employees.	Members of the House and Senate: Concentrate on economic recovery, not on adding to already high entitlements and taxes; adding to cost of labor will not put people back to work.

An Entitlement Program For America's Taxpayers

A SAVINGS of \$54 billion would ordinarily be considered a fiscal achievement of heroic proportions. But it is a relatively few drops in the federal budget bucket these days. When the Senate Budget Committee moved recently to reduce spending for entitlement programs by that amount, it represented a reduction of less than 2.5 percent.

Entitlement outlays, which cover Social Security, food stamps, welfare and other tax-financed payments to individuals, are projected at a total of \$2.2 trillion for the fiscal years 1984 to 1988. Under that spending pressure, annual federal deficits over the same period are expected to total \$1.1 trillion.

In the face of such numbers, some members of Congress nevertheless are pressing for still higher outlays for the entitlement programs, which derive their name from the workings of the laws creating them. Anyone who meets eligibility criteria is entitled to the benefits, without regard to budget limitations.

Many of the proposals for higher social spending are being offered, despite the expanding recovery, as antidotes to the recession and its impact on individuals.

It is obvious, just from the recitation of the numbers above, that Congress has an inescapable obligation to begin containing the growth of the runaway entitlement programs. As the recovery takes hold, there is neither economic nor social justification for driving those outlays still higher.

When Government Is The Problem, Not the Answer

IN A RECENT SPEECH to an audience of labor leaders, House Speaker Thomas P. O'Neill contrasted his political philosophy with that of President Reagan.

His own belief, O'Neill said, is that "the federal government has the responsibility for seeing to it that our economy is prosperous and that all our citizens are enjoying the material rewards of democracy."

The President, the Speaker continued, "believes that government is the problem and that, if it is reduced in size and limited in its concerns, prosperity will result."

Given the nature of his audience, O'Neill assumed that the comparison would reflect favorably on himself. But in drawing the philosophical contrast he showed that he still lacks a grasp of fundamental economics.

Government does not have, and it cannot create, the resources to assure a prosperous economy in which all citizens share the rewards. The only resources available to it are those it takes from the private sector, from the companies and individuals who have earned them.

The more resources that government takes, the less incentive there is for the effort and risk needed to replenish them. And the greater is the threat to the very system that creates those "material rewards" of which Tip O'Neill spoke.

When government policies become confiscatory, then government really is the problem. O'Neill would do well to come to grips with that reality.

Congress Has a Lot To Learn About Small Firms

DO YOU BELIEVE that Congress has adequate knowledge of the entrepreneurial needs and problems of small business?"

That question was posed at the recent annual meeting of the U.S. Chamber of Commerce, whose membership is made up predominantly of smaller firms. Eighty percent of the business people answering the question did so in the negative.

That overwhelming vote of lack of confidence in congressional ability to deal with the problems of small business should be a matter of concern to all members of the House and Senate.

It should make them consider whether they are out of touch with the sector of the American economy that offers the greatest potential for growth. That sector also deserves attention as the embodiment of the spirit of individual entrepreneurship on which the entire market system is based.

When it comes to small business, Congress obviously has a lot of catching up to do. □

Goodbye, Mr. Pitney. So long, Mr. Bowes.

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Thousands of firms of all sizes are targets for Moscow's secret-stealers.

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PHOTO: GEORGE OLSON



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